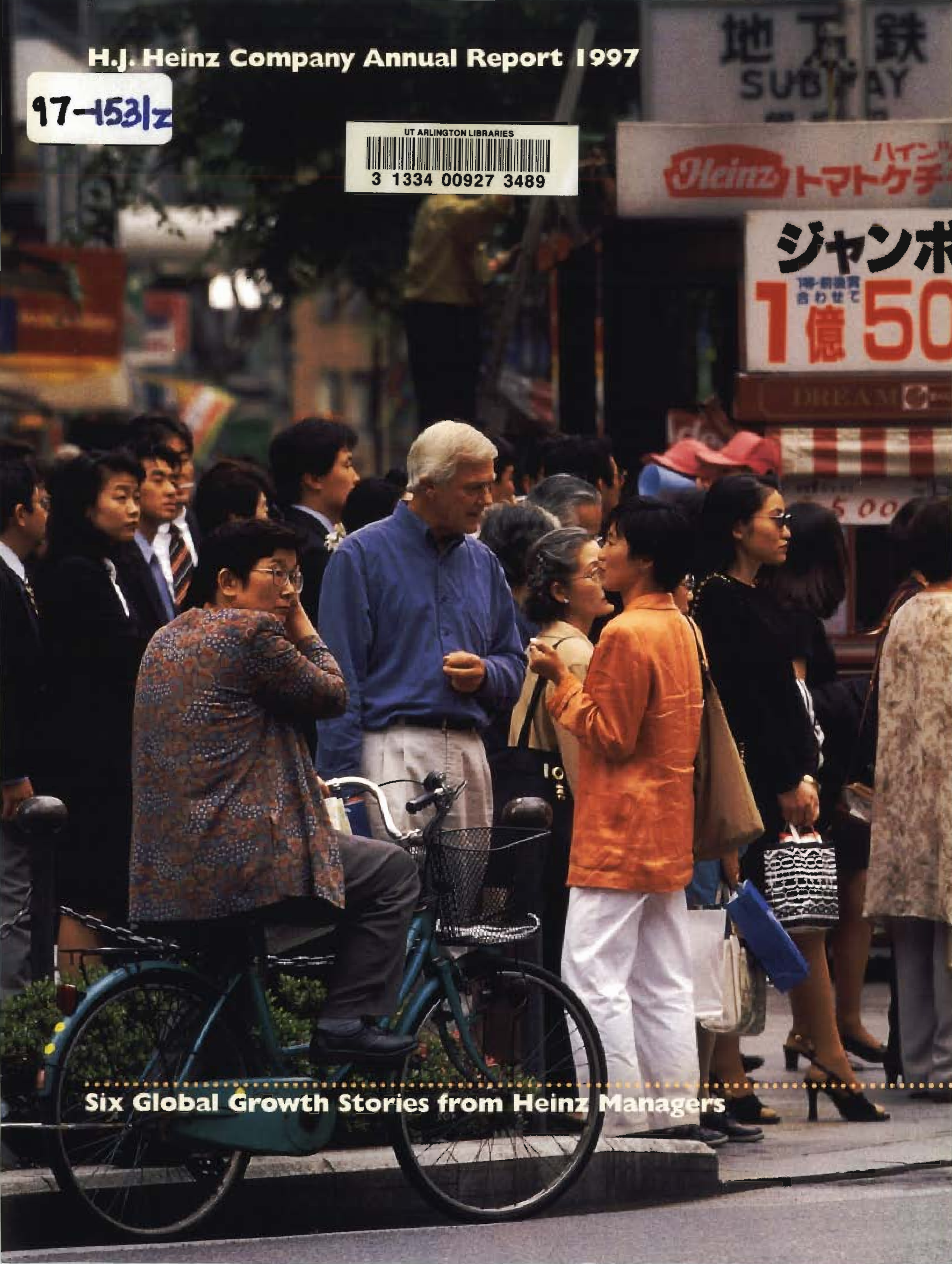
H.J. Heinz Company Annual Report 1997



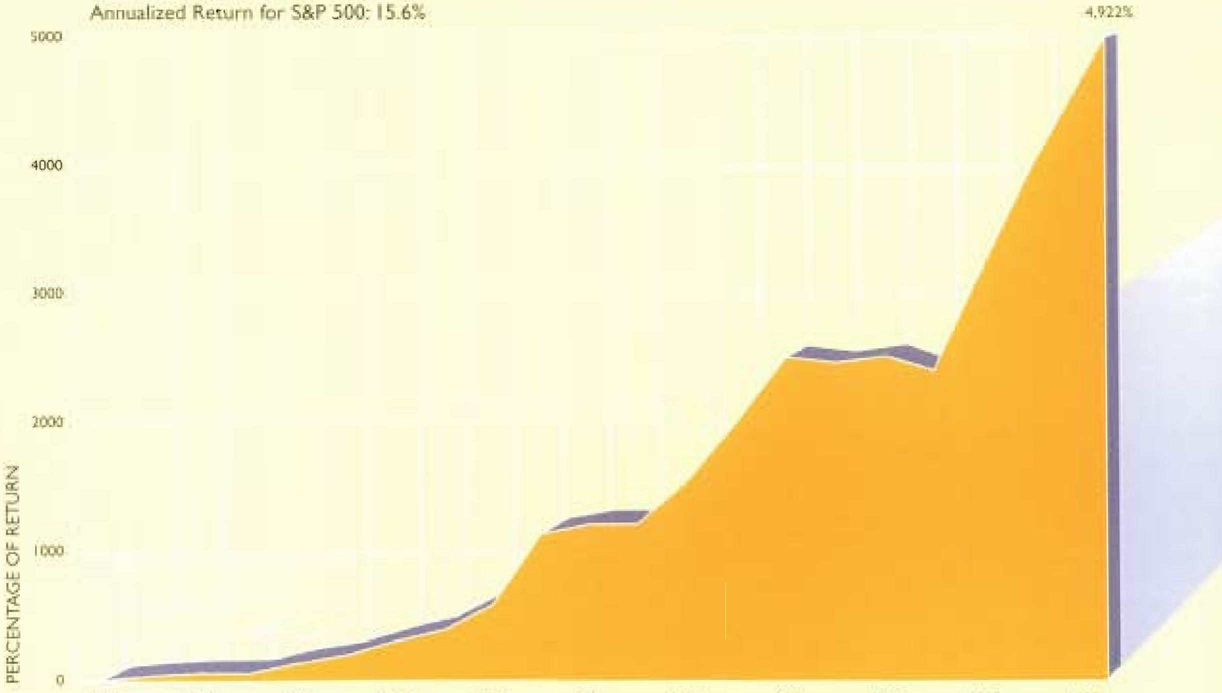
Six Global Growth Stories from Heinz Managers

The sun never sets on the business of the H.J. Heinz Company. Each day, in every corner of the globe, the people of Heinz are constantly working to create new products, open new markets and improve customer service. This year's annual report introduces six Heinz managers from around the world and offers a glimpse of the determined effort to drive Heinz to world leadership in the six core categories of foodservice, ketchup and condiments, infant feeding, pet food, tuna and weight control.

20-Year Total Return*

Annualized Return to Heinz Shareholders: 21.8%

Annualized Return for S&P 500: 15.6%



*Represents share price appreciation plus reinvested dividends.

HIGHLIGHTS

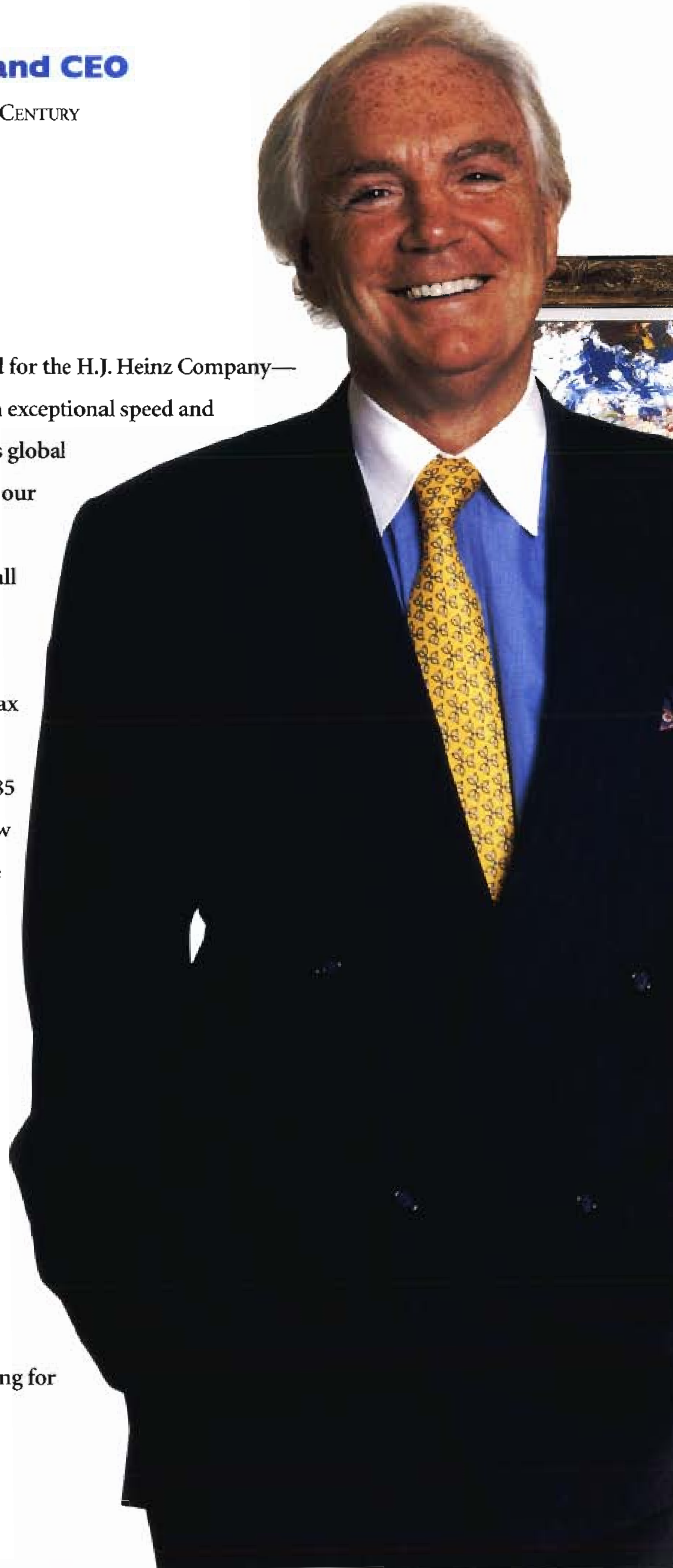
H.J. Heinz Company and Subsidiaries

(Dollars in thousands, except per share data)	1997 (52 weeks)	1996 (52 weeks)	1995 (53 weeks)
Sales	**$9,357,007**	$9,112,265	$8,086,794
Operating income	**756,271**	1,287,572	1,155,809
Operating income excluding restructuring and related costs and gains on the sale of non-strategic assets	**1,318,189**	1,287,572	1,155,809
Net income	**301,871**	659,319	591,025
Net income excluding restructuring and related costs and gains on the sale of non-strategic assets	**657,871**	659,319	591,025
Per common share amounts:			
Net income	**$ 0.81**	$ 1.75	$ 1.59
Net income excluding restructuring and related costs and gains on the sale of non-strategic assets	**1.76**	1.75	1.59
Dividends	**1.13½**	1.03½	0.94
Book value	**6.64**	7.34	6.76
Capital expenditures	**$ 377,457**	$ 334,787	$ 341,788
Depreciation and amortization expense	**340,490**	343,809	315,267
Property, plant and equipment, net	**2,479,220**	2,616,828	2,534,376
Cash, cash equivalents and short-term investments	**$ 188,437**	$ 108,380	$ 207,031
Operating working capital	**1,107,696**	1,305,359	1,126,216
Total debt	**3,447,435**	3,363,828	3,401,076
Shareholders' equity	**2,440,421**	2,706,757	2,472,869
Average shares for earnings per share	**373,703,246**	377,155,837	372,806,306
Current ratio	**1.05**	1.12	1.10
Debt/invested capital	**58.6%**	55.4%	57.9%
Pretax return on average invested capital	**12.6%**	21.8%	22.1%
Return on average shareholders' equity	**11.7%**	25.5%	24.6%

The 1997 results include a pretax charge for restructuring and related costs of $647.2 million, offset by capital gains of $85.3 million from the sale of non-strategic assets in New Zealand and the U.K.

Letter from the Chairman and CEO

DOUBLE-DIGIT EARNINGS GROWTH INTO THE NEXT CENTURY



DEAR SHAREHOLDERS: Fiscal 1997 was a watershed for the H.J. Heinz Company—a point of departure for a new millennium. With exceptional speed and careful deliberation, we undertook an ambitious global reorganization to sharpen our focus, streamline our production, and generate significant savings to improve margins and support our brands. We call this initiative Project Millennia, the largest reorganization in our 128-year history.

Specifically, we have taken a reduction in pretax earnings for Fiscal 1997 of approximately $665 million, net of a capital gain of approximately $85 million for the sale of non-strategic assets in New Zealand and the U.K. We also completed the sale of Ore-Ida's foodservice business to McCain Foods for about $500 million in June 1997. We announced closure or sale of 19 plants worldwide, with another half dozen to come.

Such major initiatives were reflected in our results: sales reached $9.36 billion, while earnings per share were $0.81. Reflecting the impact of Project Millennia, operating income was $756.3 million (versus $1.29 billion the prior year), and net income was $301.9 million (compared to $659.3 million for Fiscal 1996). Excluding the reorganization effects and adjusting for

changes in trade promotion practices, operating income would have increased 10.4%, and net income would have risen 9.6%.

These actions, though dramatic, merely touch the surface of a much deeper program to produce double-digit growth into the next century. This includes investments to add manufacturing capacity in dynamic markets. Among these are facilities in the Seychelles and Ghana for European tuna; in American Samoa for StarKist; in Dundalk, Ireland, for European frozen food; in Ozzano Taro in Italy for baby food in Europe; in Aligarh for India's enormous market; in Jacksonville, Florida, for American foodservice; and in New Zealand's Hastings and Tomoana plants, particularly for exports to Asia/Pacific.

Another aspect is acquisition to strengthen our global markets. In June 1997, Heinz U.K. acquired John West Foods Limited, the U.K.'s leading brand of canned tuna and fish. The purchase adds brand strength and production synergies to our thriving European tuna business.

The sale of Tip Top ice cream in New Zealand was part of our plan to exit businesses that do not meet performance goals or fit our core categories of foodservice, infant feeding, ketchup and condiments, pet food, tuna and weight control.

We are applying "value-added manufacturing," whereby we focus on those products where we have a distinct low-cost competitive advantage, such as ketchup and tuna. We turn to other manufacturers for products that are commodity-oriented or for which we are not the low-cost producers. An example is Weight Watchers dry grocery products, now licensed to Hain Foods.

We are dramatically reducing the costs of our Weight Watchers system in the U.S. by discontinuing our Personal Cuisine business and holding meetings in community facilities. We will replicate the popular 1•2•3 Success™ Plan from the U.K. and Europe, and launch it in America in September.

Project Millennia is expected to generate approximately $120 million in pretax savings in Fiscal 1998, increasing to about $200 million upon full implementation. We also expect improved profit margins, higher return on invested capital and greater asset productivity. We will support marketing plans with a 30% increase in media spending over the next two years. During the next

five years, we anticipate generating free cash flow of over $2 billion to apply toward debt reduction, acquisitions and share repurchase. We are introducing management performance criteria to encourage these improvements.

Due to increased shareholder interest in corporate governance, the directors have published their views and guidelines on the subject in a statement contained in the 1997 proxy. The directors' commitment to Heinz shareholders is reflected by the annualized total return of 21.8% over the past 20 years, compared to 15.6% for the Standard & Poor's 500.

I want to pay tribute to Heinz employees worldwide who have made Project Millennia a success. The leadership of Bill Johnson as president and COO has been critical to its implementation. Another architect of Project Millennia is Paul F. Renne, executive vice president and chief financial officer. I am delighted to welcome Paul to the Heinz board, which will greatly value his counsel.

I also welcome Dan O'Neill as executive vice president. He will, from September 15, be responsible for Heinz Pet Products and StarKist Seafood. Dan has an outstanding management record at S.C. Johnson and, most recently, as president–U.S. soup and prepared foods for Campbell's.

When I became CEO in 1979, Heinz's market capitalization was $900 million; today it is $17 billion, with fewer shares in issue. How was it done? By emphasis on big brands, by expansion into new global markets, by product innovation, by low-cost operations, by excellent management and by focusing on shareholders, consumers and customers. We will continue with this winning formula to generate double-digit earnings growth into the next century.

I am proud to lead one of the world's premier food companies — a global enterprise dedicated to generating exceptional shareholder value.

Anthony J.F. O'Reilly
Chairman and Chief Executive Officer

Letter from the President and COO

A More Focused, Productive and Profitable Company

Dear Shareholders: This is my first opportunity to address you in the Heinz annual report. During the past year, I have had the privilege, as president and chief operating officer, to work closely on Project Millennia with Tony O'Reilly and Heinz's dedicated management team. Together, we have fashioned initiatives for global growth, particularly in Heinz's six core categories.

Beginning with pet food, Project Millennia gives us the wherewithal to target a number of new opportunities. We will attack costs in production and distribution, while enhancing our efficient consumer response programs. In North America, we will expand pet treats and specialty products — two high-growth and high-margin businesses. Overseas, we will accelerate expansion into new markets in South America, Japan, Southern Africa and Europe.

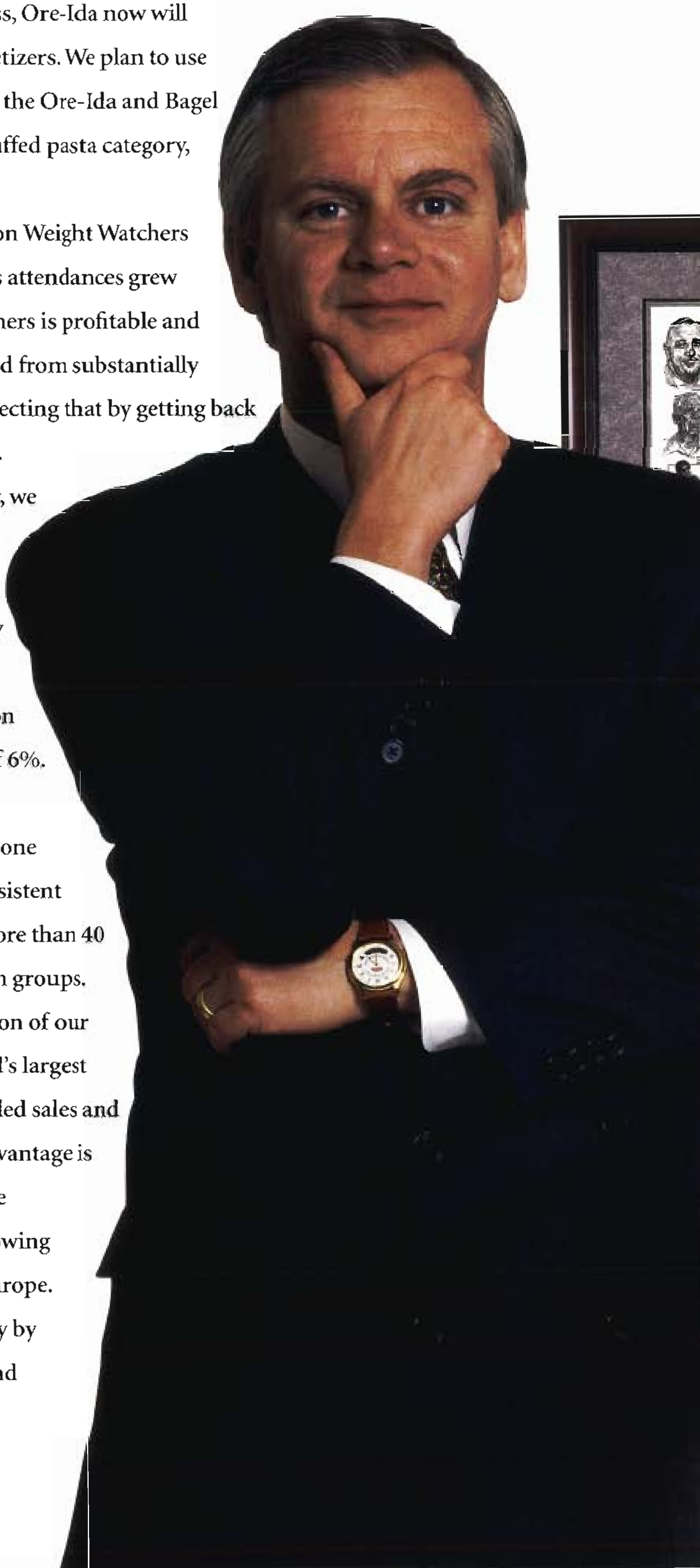
As for ketchup and condiments, we are America's leading supplier — about half of all U.S. retail ketchup bears the Heinz brand. The closure of one of our ketchup plants will help maximize utilization of our four remaining major ketchup and condiment factories in North America. Our leading-edge customer support programs should reduce our North American inventory 10%, while improving customer service. The savings will support important marketing initiatives, including the return of TV commercials for Heinz ketchup.

Our efforts will include aggressive marketing in Europe, particularly Germany, which represents 30% of the continent's total ketchup sales. We aim to double our share of that market — to 35% — in the next five years.

Another major business is Ore-Ida, which, though not a global category, is part of a very large Heinz frozen foods presence that includes Ore-Ida potatoes, Bagel Bites snacks and Rosetto pasta. Ore-Ida is the world's most profitable branded potato processor, with a retail market share of 55%.

With the sale of its foodservice potato business, Ore-Ida now will concentrate on retail branded potatoes and appetizers. We plan to use Project Millennia savings to aggressively market the Ore-Ida and Bagel Bites brands and make assaults on the frozen stuffed pasta category, which we expect to be a $350-million market.

Looking at weight control, we have four million Weight Watchers members worldwide. Last year, Weight Watchers attendances grew 3% to 39 million. Outside the U.S., Weight Watchers is profitable and growing. Inside the U.S., profitability has suffered from substantially higher costs and greater complexity. We are correcting that by getting back to basics with meetings in community locations.



At Weight Watchers Gourmet Food Company, we have reduced our factories from four to two. Additionally, we are lowering production and packaging costs, improving marketing efficiency and reducing administrative overhead.

Weight Watchers brand foods is a $100-million business in Europe, growing at an annual rate of 6%. To boost margins for frozen varieties, we are consolidating production from five locations to one expanded plant in Dundalk, Ireland. This is consistent with our reorganization, which is converting more than 40 country-by-country units into six pan-European groups.

Our strategy in tuna is predicated on expansion of our low-cost presence worldwide. Heinz is the world's largest tuna processor, with nearly 20% of global branded sales and about half of the U.S. market. In Europe, our advantage is low-cost, duty-free tuna plants in Ghana and the Seychelles. We are a leader in France and are growing rapidly in the U.K., Italy and parts of Eastern Europe.

StarKist will reduce costs and improve quality by mechanizing the labor-intensive tuna cutting and

cleaning process. This will complement StarKist's unmatched efficiency in filling and shipping. We also are downsizing or closing production facilities that no longer fit within our global low-cost strategy.

Foodservice has grown to almost $1.7 billion, net of the divestiture of the Ore-Ida foodservice business. Our focus is on the high-value segments of this business, as well as expanding our presence in Europe and Asia/Pacific. We are very encouraged by the bakery segment, which successfully launched bagels in North America, in partnership with Dunkin' Donuts. Through Project Millennia, we are closing, selling or downsizing up to five of our ten bakery plants to further reduce costs and improve profitability.

Heinz's European foodservice business is expected to double over the next five years. Our precedent is foodservice tuna in the U.K., where the product has shown substantial growth in just two years. Meanwhile, we are realigning our foodservice efforts in the Asia/Pacific region to serve our customers and consumers more effectively.

Finally, in infant feeding, we look for geographic expansion throughout Central and Eastern Europe, India, Russia and China. We also are launching the newly acquired Earth's Best line of organic baby food in Canada and Australia.

We are consolidating infant feeding production in Italy and downsizing our Kendal plant in the U.K., while increasing capacity. We also see significant opportunities in Eastern Europe, where we expect sales of all our infant feeding products to grow at a 35% annual rate.

As you can see, Project Millennia will have a significant impact on every Heinz business around the world. It will produce a more focused, productive and profitable company, equipped to answer the challenges of the future.

Bill Johnson

William R. Johnson

President and Chief Operating Officer

Heinz around the world: *On every inhabited continent of the globe, dedicated and creative Heinz employees make and market products renowned for their quality, value and wholesome goodness. The world's largest tomato processor, Heinz also sells more tuna than any other*

company. With state-of-the-art factories throughout the world, the company supplies more than 4,000 varieties to a growing number of loyal consumers. The allure of Heinz brands transcends borders, cultures and climates, as nearly half of the company's sales are recorded outside the U.S.

New Zealander Tony Dallimore discusses growth opportunities with Heinz Japan's Takako Niwa.

"My whole working life I've been making things happen," says Tony Dallimore, a native New Zealander and 30-year veteran of Wattie's, the dominant food brand and processor in New Zealand for half a century. □ As new business development manager, Dallimore frequently travels abroad and, in general, keeps up with new ideas and changes — be they manufacturing processes or packaging systems. "We keep ourselves right up to the cutting edge," he notes. He regularly meets to review market opportunities with Takako Niwa and others at Heinz Japan. □ The 1992 purchase of Wattie's by Heinz expanded his horizons. "Heinz brought an accelerated ability to take advantage of new markets. I really get a kick out of that," he notes. Strategically, Wattie's focuses on creating new export products for the Asia/Pacific market. Since 1992, it has participated in a wide variety of ventures with Heinz Japan. In 1996, for example, both companies jointly invested in a new production facility in Tomoana, New Zealand. The marriage is creating a uniquely profitable partnership. □ The Tomoana facility will soon be able to produce frozen and shelf-stable vegetable, meat and dairy-based pouch products. The Japanese market alone, with 124 million consumers, is enormous. Wattie's target is to double activity with Heinz Japan by the year 2000. Dallimore continues to look forward to "making it happen."


HEINZ
グラタンソース
HEINZ

Michael Weber tastes the possibilities for marketing Heinz ketchup in Germany.

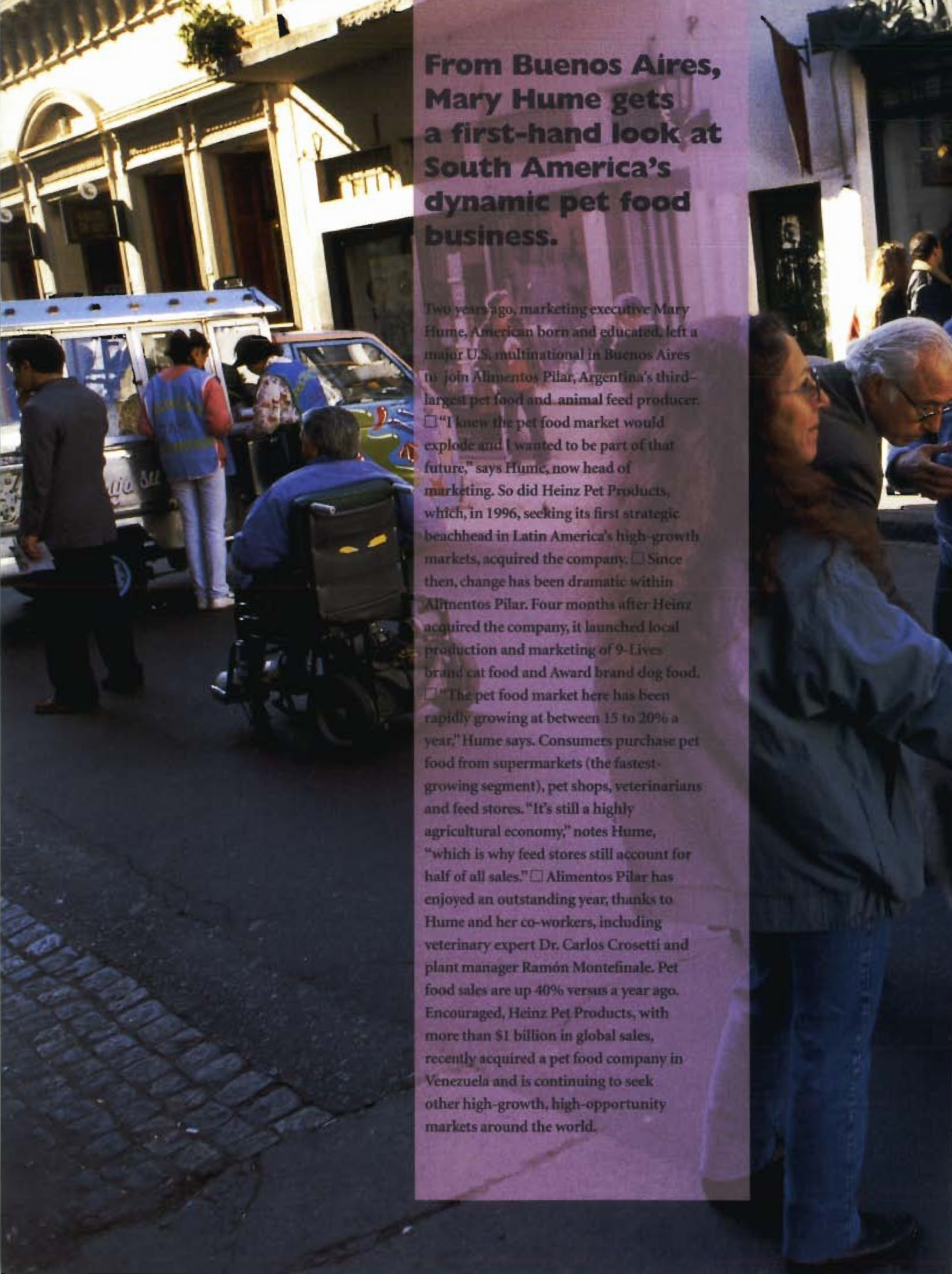
Michael Weber admits that, as a student, his worst subject was foreign languages. Yet, this young German executive has become remarkably fluent in English since joining Heinz just 18 months ago. His secret? "Learning by doing," says Weber, "especially during the last nine months when I was obliged to talk to my Dutch boss only in English." □ Having conquered one challenge, he is looking forward to the next as brand development manager. "What I enjoy most is that we have a superbrand, Heinz ketchup, with a bit of a cult status. Now, the challenge is to double our market share," he says. Today, Germany represents about 30% of total European ketchup sales. With a new marketing strategy and distribution system, Heinz is committed to moving its brand to the top spot in the country. □ Heinz ketchup already enjoys high brand loyalty and brand awareness among German consumers. "We have gold in our hand," says Weber, whose team will now focus on improving trade distribution and updating the brand's image with a contemporary advertising and marketing campaign. □ "I have learned a lot," says Weber, "especially, how to think in a strategic manner about marketing issues and ... oh yes, don't forget the financials." Sounds like he's well on his way towards getting an A+ in Heinz English.


HEINZ
TOMATO
KETCHUP
HEINZ
TOMATO
KETCHUP

In New Delhi, Dr. C.N. Kuchroo creates nutritious foods and drinks for a growing marketplace.

As a young chemist working on his Ph.D. in India, Dr. C. N. Kuchroo played a significant role in developing infant foods that were nutritionally superior to products then available. He has never strayed far from infant nutrition, having pursued a post-doctoral fellowship in food science from University College, Cork, Ireland. □ Today, Kuchroo's experience is a unique asset. "I was a chemist who became a technologist, who became a quality assurance man and, finally, general manager – production at Heinz India's Aligarh plant," he says. □ Heinz is leveraging its expertise around the world in rapidly growing countries, such as India, where 26 million babies are born each year and infant feeding is a fast-growing $50-million category. □ Since acquiring the Farex line of infant cereals in 1994, Heinz has expanded the brand more than 50% in volume and 70% in value, reaching consumers through television and radio advertising. □ The future looks even more promising. Notes Kuchroo, "We want to bring our entire baby food product range into India under the Farex brand name." Heinz is ready to relaunch, expand and fortify its rice and wheat cereals to combat documented vitamin A, iron and iodine deficiencies within India's infant population. □ In 1997, The Farex Nutrition Foundation will sponsor nutrition symposia and step up work with pediatricians, new mothers and medical authorities.

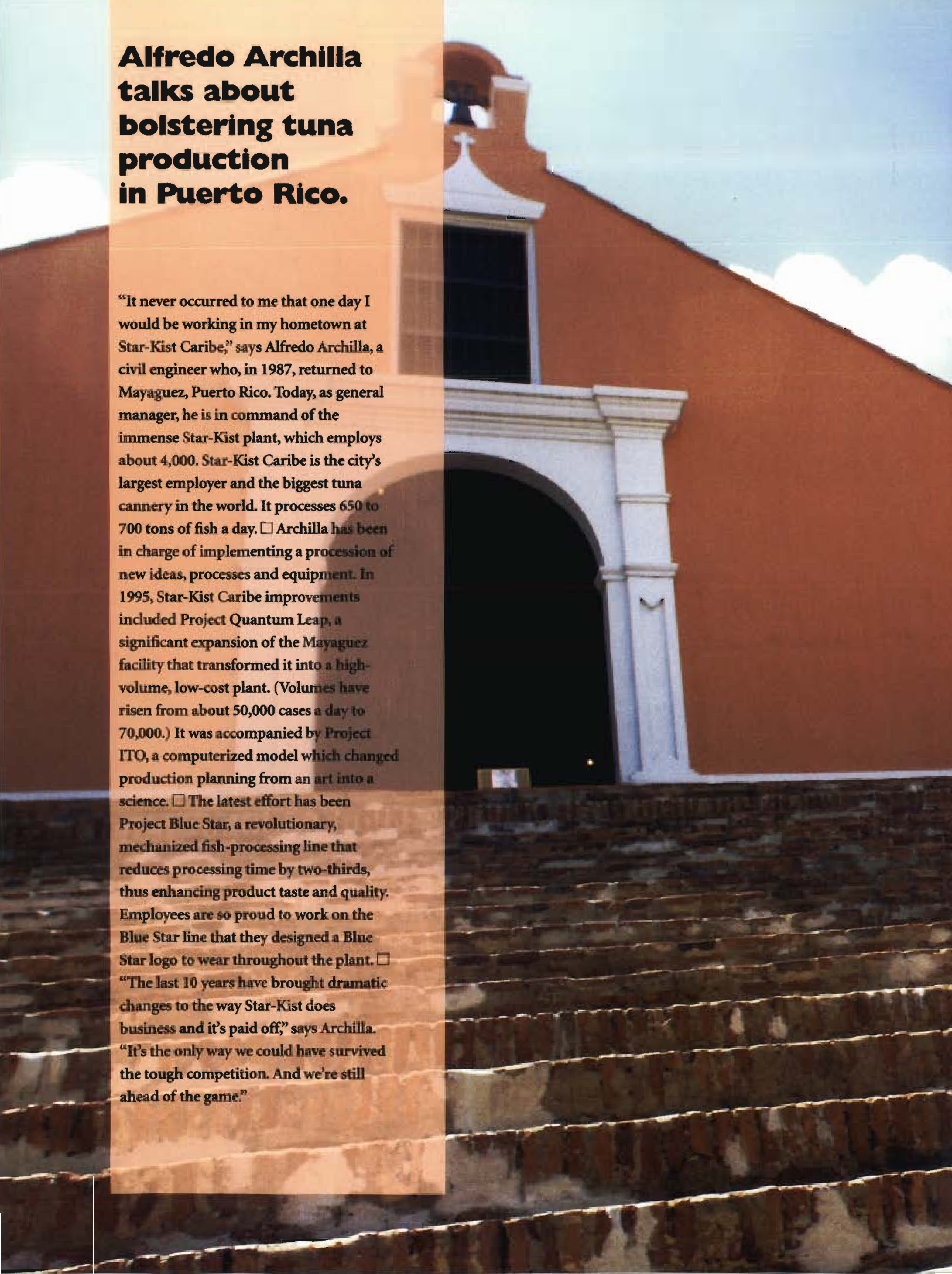

RICE
Farex



From Buenos Aires, Mary Hume gets a first-hand look at South America's dynamic pet food business.

Two years ago, marketing executive Mary Hume, American born and educated, left a major U.S. multinational in Buenos Aires to join Alimentos Pilar, Argentina's third-largest pet food and animal feed producer. □ "I knew the pet food market would explode and I wanted to be part of that future," says Hume, now head of marketing. So did Heinz Pet Products, which, in 1996, seeking its first strategic beachhead in Latin America's high-growth markets, acquired the company. □ Since then, change has been dramatic within Alimentos Pilar. Four months after Heinz acquired the company, it launched local production and marketing of 9-Lives brand cat food and Award brand dog food. □ "The pet food market here has been rapidly growing at between 15 to 20% a year," Hume says. Consumers purchase pet food from supermarkets (the fastest-growing segment), pet shops, veterinarians and feed stores. "It's still a highly agricultural economy," notes Hume, "which is why feed stores still account for half of all sales." □ Alimentos Pilar has enjoyed an outstanding year, thanks to Hume and her co-workers, including veterinary expert Dr. Carlos Crosetti and plant manager Ramón Montefinale. Pet food sales are up 40% versus a year ago. Encouraged, Heinz Pet Products, with more than $1 billion in global sales, recently acquired a pet food company in Venezuela and is continuing to seek other high-growth, high-opportunity markets around the world.


Tiernitos
ADULTOS-CARNE

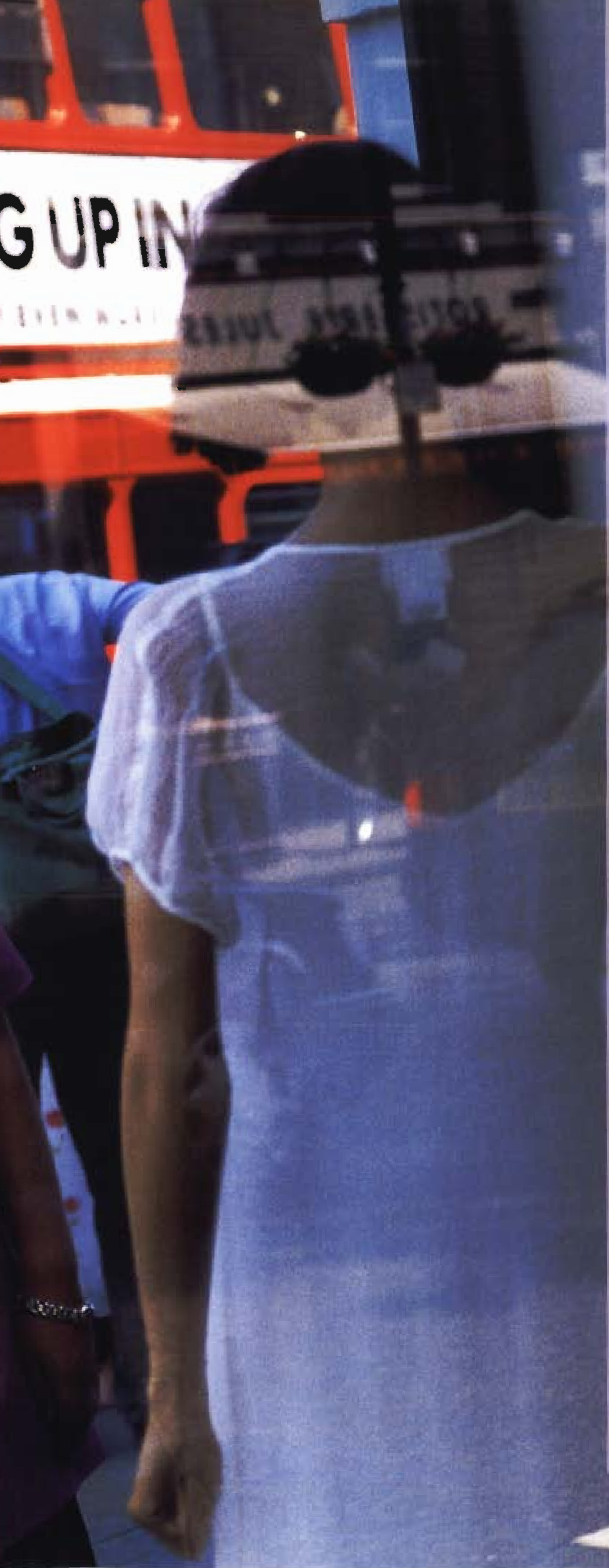


Alfredo Archilla talks about bolstering tuna production in Puerto Rico.

"It never occurred to me that one day I would be working in my hometown at Star-Kist Caribe," says Alfredo Archilla, a civil engineer who, in 1987, returned to Mayaguez, Puerto Rico. Today, as general manager, he is in command of the immense Star-Kist plant, which employs about 4,000. Star-Kist Caribe is the city's largest employer and the biggest tuna cannery in the world. It processes 650 to 700 tons of fish a day. □ Archilla has been in charge of implementing a procession of new ideas, processes and equipment. In 1995, Star-Kist Caribe improvements included Project Quantum Leap, a significant expansion of the Mayaguez facility that transformed it into a high-volume, low-cost plant. (Volumes have risen from about 50,000 cases a day to 70,000.) It was accompanied by Project ITO, a computerized model which changed production planning from an art into a science. □ The latest effort has been Project Blue Star, a revolutionary, mechanized fish-processing line that reduces processing time by two-thirds, thus enhancing product taste and quality. Employees are so proud to work on the Blue Star line that they designed a Blue Star logo to wear throughout the plant. □ "The last 10 years have brought dramatic changes to the way Star-Kist does business and it's paid off," says Archilla. "It's the only way we could have survived the tough competition. And we're still ahead of the game."


StarKist
CHUNK LIGHT TUNA
StarKist
CHUNK WHITE TUNA

IT'S LOOK
NOW YOU CAN LO



Sarah Watson shops London for fresh ways to make Weight Watchers a greater success.

Eleven years ago "on a wet Tuesday afternoon" in Camberly, 60 miles south of London, Sarah Watson took her two small children on a walk that ultimately changed her life. She met another mother on the stroll who declined Watson's invitation to tea because she was planning to attend a Weight Watchers meeting. The following week, Watson accompanied her friend to a meeting, "basically to get out of the house." In the short run, Watson lost 42 pounds; in the long run, she found a career, moving from member to leader and on to her present position, head of training and program development. ☐ Last year, with Weight Watchers under mounting competitive pressure, Watson created the 1•2•3 Success™ Plan, which has taken the U.K. by storm. The plan is an easy-to-follow weight-control program that replaces the weighing and measuring of food with a simple point system. Best of all, it permits total freedom of choice. No food is a sin; no food is forbidden, including convenience and pre-packaged take-out food. ☐ After the launch of the 1•2•3 Success™ Plan, market share has bounded back to more than 50%. Product sales (including an electronic calculator patented by Watson and her co-worker, Marian Way) grew by 86%, and operating income by 582%. Today, there are 5,600 meetings a week, with 9.1 million yearly attendances. "If you want to be on a diet, this one is a real joy—not to mention the fun of shopping for even slimmer sizes," says Watson.

Global Brands and Businesses

Heinz continued its global growth in Fiscal 1997. The company's worldwide net sales reached a record $9.36 billion. U.S. operations accounted for 55% of this figure, with the remaining 45% coming from non-U.S. affiliates. Heinz supported its brands during the year with $2.05 billion in marketing expenditures.

Brand Building

Heinz's power brands led the charge. In North America, Heinz ketchup captured roughly half of U.S. retail sales and 73% of the Canadian market. The growing consumer appetite for meals away from home helped spur a 6% increase in Heinz foodservice sales. Heinz U.S.A. increased sales of its venerable 14-ounce ketchup bottle 20% by converting it from glass to plastic. Foremost among marketing innovations was Heinz U.S.A.'s Art of Ketchup campaign held in conjunction with the National Endowment for the Arts and *Scholastic* magazine. Three children's label designs were selected from among 45,000 submissions and put on limited-edition bottles of Heinz ketchup. Offshore, Heinz's share of Sweden's foodservice ketchup market jumped 25%. Already a favorite in Spain, Heinz's tomate frito sauce quickly took 25% of the Netherlands market.

Infant feeding flourished, with Heinz holding strong market positions in Canada, Southern and Central Europe, Australasia and China. Heinz U.K. held 58% of its market and, in Spain, Heinz Iberica's baby food sales soared 32%. Heinz Italia, with 78% of the country's infant feeding market, doubled sales of freeze-dried baby food. Heinz India reported higher sales of infant supplements and products. In the U.S., Heinz enjoyed more than a 17% share and introduced 14 new baby food varieties.

StarKist tuna remained supreme, with a U.S. market share exceeding 47%.

Heinz Italia successfully integrated its acquisition of the Mareblu brand. Petit Navire led the tuna market in France. Down Under, Australian sales of tuna lunch kits more than doubled.

Heinz was a leader in the $10-billion U.S. pet food industry, with 17% of the cat food business and 17% of dog food sales. Heinz also had 33% of the attractive and growing treats market. 9-Lives reigned, with 26% of the canned cat food market. Heinz Pet Products continued to penetrate the $1-billion pet treats segment with innovative, convenient stand-up packaging and new varieties, such as Jerky Treats Sizzlin' Bac'n.

Ore-Ida took top honors with 55% of the retail frozen potato market. Ore-Ida's new country-style potato products fueled sales growth. Sales of Ore-Ida Hash Browns rose 9%, while a new mozzarella variety of Ore-Ida Cheese Bites quickly became the number-one item in the product line.

In the U.K., Weight Watchers launched its easy-to-follow 1•2•3 Success™ Plan, which promptly boosted registrations there by 50%. In Weight Watchers brand foods, Heinz Canada's shipments of Smart Ones frozen entrees rose 26%. Weight Watchers gained attention by naming Sarah Ferguson, Duchess of York, its spokesperson in the U.S.

Production and Procurement

Heinz, as part of Project Millennia, announced a major reorganization of its production and distribution network. This involves the closure or sale of approximately 25 plants worldwide. Earlier in the fiscal year, Heinz U.S.A. opened a 204,000-square-foot plant in Jacksonville, Florida, to meet the growing demand for portion-control foodservice products. The company more than doubled the size of its Mason, Ohio facility and installed new production equipment at plants in Holland, Michigan; Muscatine, Iowa; and Fremont, Ohio.

Heinz Australia invested in increased tomato-processing capacity. In the Czech Republic, Heinz added equipment to improve infant formula production. Heinz India opened a research and development center. Heinz Italia upgraded its jarred baby food capacity to accommodate production for Spain. Heinz Venezuela invested in another tomato-processing facility. And Olivine in

Zimbabwe built expanded storage and production capacity for its growing oil and soap businesses.

Good weather led to high-yield and high-quality tomato and cucumber crops in the Midwest. The tomato crop in California met the company's requirements, despite extreme weather on the West Coast.

Market Extension

As Heinz streamlined its worldwide operations through Project Millennia, it also strengthened its portfolio and market positions through acquisitions. Heinz Canada purchased the canned beans and pasta business of Nestlé Canada Inc. The company expanded its pet food business in Canada with the acquisition of Martin Feed Mills Limited, whose products are also exported to Japan and Europe.

Heinz Australia added Southern Country Foods and Hugo Canning, leading producers and exporters of canned corned beef and related products. In a similar move, Wattie's acquired Shortland Cannery Ltd., New Zealand's largest producer of canned corned beef.

Public Service

Heinz employees again played significant and generous roles in helping their communities. The H.J. Heinz Company Foundation exemplified this commitment with $6.2 million in grants to 850 organizations.

Heinz U.S.A., through its baby food label-saving program, donated more than $330,000 to 154 hospitals as a sponsor of the Children's Miracle Network Telethon. Ore-Ida raised more than $100,000 for Toys for Tots. Weight Watchers Gourmet Food Company donated $100,000 to combat breast cancer. Heinz Pet Products again supported the Homeless Homer label program, which benefits homeless pets.

The Heinz Institute of Nutritional Sciences (HINS) conducted its annual symposium in China for physicians, government officials and consumers, and led two nutrition conferences in Russia.

H.J. Heinz Company announced its largest-ever reorganization plan on March 14, 1997 during a meeting before The Security Analysts of San Francisco. This reorganization and restructuring program ("Project Millennia") is designed to strengthen the company's six core businesses and improve Heinz's profitability and global growth.

Among the important elements in Project Millennia are brand building, increasing media spending by 30% over two years, overseas expansion, efficient consumer response (ECR), value-added manufacturing, price-based costing and working capital savings. The company will close or divest approximately 25 plants throughout the world, while investing heavily to upgrade and build plants to add capacity in fast-growing markets. Excluding the sale of plants and businesses, the global workforce will be reduced by approximately 2,500.

In the fourth quarter of Fiscal 1997, the company's Board of Directors approved the initiatives which comprise Project Millennia. These initiatives include:

- ☐ The exit of at least four non-strategic businesses, including the divestitures of Ore-Ida's foodservice business and the New Zealand ice cream business. (See Notes 3 and 16 to the Consolidated Financial Statements.)
- ☐ The elimination of inefficient end-of-quarter trade promotion practices which will improve inventory turns, cash flow and working capital for Heinz and its customers.
- ☐ The restructuring of the U.S. Weight Watchers meeting system by exiting the Personal Cuisine business in the centers which sold food and closing 55 inefficient centers.
- ☐ The closure of Heinz Pet Products' Kankakee, Illinois pet food manufacturing facility and distribution center and the realignment of other pet food manufacturing and distribution operations to locations closer to large customer bases.
- ☐ The closure of the Tracy, California ketchup and condiment factory.
- ☐ The establishment of a pan-European category-based strategy in Europe, aligning most of the company's European operations around its six core businesses rather than by geographic area.
- ☐ The implementation of a voluntary early retirement incentive program for domestic salaried employees.
- ☐ The revision of the manufacturing configuration of Heinz Bakery Products, including the closure, sale or downsizing of up to five of the ten bakery facilities.
- ☐ The consolidation of the three Heinz-Wattie businesses into one company to improve the overall performance and provide greater leverage of various functions.

The plan is expected to generate approximately $120 million in annual pretax savings in Fiscal 1998, increasing to approximately $200 million upon full implementation. A portion of the savings will be reinvested in marketing, pricing and quality improvements for the company's key brands.

H.J. Heinz Company's financial results for Fiscal 1997 were significantly impacted by Project Millennia. Restructuring charges and related costs recorded in Fiscal 1997 for Project Millennia totaled $647.2 million pretax ($1.09 per share).

During Fiscal 1997, the company recognized gains on the sale of non-strategic assets. Gains were recognized on the sale of the New Zealand ice cream business, $72.1 million pretax ($0.12 per share) and real estate in the United Kingdom, $13.2 million pretax ($0.02 per share). Excluding the restructuring charges and related costs ($1.09 per share) and the gains on the sale of non-strategic assets ($0.14 per share), Fiscal 1997 earnings would have been $1.76 per share.

As an integral part of Project Millennia, the company implemented a program to eliminate inefficient end-of-quarter trade promotion practices. This change in trade promotion practices reduced Fiscal 1997 earnings by an estimated $102.7 million pretax ($0.17 per share). Excluding the restructuring charges and related costs, gains on the sale of non-strategic assets and adjusting for the change in trade promotion practices, Fiscal 1997 earnings would have been $1.93 per share, an increase of 10.3% over last year.

RESULTS OF OPERATIONS

1997 versus 1996: Sales for 1997 increased $244.7 million, or 2.7%, to $9.36 billion from $9.11 billion in 1996. The sales increase was primarily due to acquisitions (net of divestitures) and increased prices in a number of product lines. Sales volume was reduced by the company's program to eliminate inefficient end-of-quarter trade promotion practices, primarily in North America. Domestic operations contributed approximately 55% of consolidated sales in 1997, compared to approximately 57% in 1996.

Acquisitions (net of divestitures) contributed $225.5 million, or 2.5%, to the sales increase. Fiscal 1997 acquisitions impacting the year-to-year sales dollar comparison included: Southern Country Foods Limited in Australia, one of the world's largest producers of canned corned beef and meals; substantially all of the pet food businesses of Martin Feed Mills Limited in Canada, which produces and markets cat and dog food throughout Canada; the canned beans and pasta business of Nestlé Canada Inc.; and other smaller acquisitions.

Also contributing to the sales dollar increase were the following 1996 acquisitions: Nature's Recipe Pet Food in the U.S., which markets a brand of premium specialty pet foods; Alimentos Pilar S.A. of Argentina, a leading producer of pet and animal feed; Fattoria Scaldasole S.p.A. in Italy, a processor of organic foods; Earth's Best, Inc. in the U.S., which produces a leading brand of premium organic baby foods; Britwest Ltd. in the United Kingdom, which markets single-serve condiments, beverages and sauces in Britain and France; the Craig's brand of jams and dressings in New Zealand; Indian Ocean Tuna Ltd. in the Seychelles; and the Mareblu brand of canned tuna in Italy. Sales were reduced by the divestitures of the following non-strategic businesses: an overseas mushroom business; *Weight Watchers Magazine;* two regional dry pet food product lines; the New Zealand ice cream business; and other smaller divestitures.

Worldwide prices increased $152.7 million, or 1.7%, in 1997. Domestic price increases occurred in Ore-Ida retail frozen potatoes, single-serve condiments and pet food. Overseas, prices increased in infant foods and soups.

Worldwide volume decreased $104.5 million, or 1.2%, in 1997. Sales volume was reduced by the company's program to eliminate inefficient end-of-quarter trade promotion practices as discussed above, primarily in North America. Domestic sales volume decreased 3.4%, as volume declined in Ore-Ida retail frozen potatoes, ketchup and infant foods. Sales volume also declined in frozen entrees (including weight control) due primarily to a very competitive marketplace. Domestic sales volume increased in foodservice frozen potatoes, bakery products, condiments and pet food. Foreign sales volume increased 1.9%, driven by increased attendance overseas at the Weight Watchers meeting business.

As noted above, domestic frozen entree volume (including weight control) was down in a very competitive marketplace. The company is implementing "price-based costing" for The Budget Gourmet brand of frozen entrees, using low manufacturing costs to include a larger selection at a more competitive price point. The company believes this strategy will offset recent volume trends and strengthen its competitive position in this category. The company

is also refocusing on the "Smart Ones from Weight Watchers" line of frozen entrees, which involves improving the overall quality of the line, adding product varieties and introducing new packaging.

Overall, attendance was up in the Weight Watchers meeting business due to a strong increase in attendance overseas, offset partially by lower attendance in the U.S. Domestically, the company plans to launch, in September 1997, the new Weight Watchers 1·2·3 Success™ Plan, which has been very successful in Europe. In addition, to reduce costs in the Weight Watchers meeting business in the U.S., the company has exited the Personal Cuisine business in the centers which sold food and is closing 55 inefficient centers.

Foreign currencies declined against the U.S. dollar, decreasing sales $29.0 million, or less than 1%. This decrease came primarily from sales in Japan, Central Europe and Zimbabwe, offset partially by sales in the United Kingdom.

Gross profit decreased $365.0 million to $2.97 billion from $3.34 billion a year ago. The ratio of gross profit to sales decreased to 31.8% from 36.6%. Excluding the effects of the 1997 restructuring charges and related costs of $477.8 million, and the gains on the sale of the New Zealand ice cream business and real estate in the United Kingdom of $85.3 million, gross profit would have increased $27.5 million to $3.36 billion, however, the ratio of gross profit to sales would have decreased to 36.0%. The current year's adjusted gross profit ratio of 36.0% was impacted by the company's change in trade promotion practices and higher commodity prices, offset partially by favorable pricing.

Selling, general and administrative (SG&A) expenses increased $166.3 million to $2.22 billion from $2.05 billion and increased as a percentage of sales to 23.7% from 22.5%. Excluding the effects of the 1997 restructuring charges and related costs of $169.4 million, SG&A expenses would have remained flat at $2.05 billion and would have decreased as a percentage of sales to 21.9%.

Total marketing support (including trade and consumer promotions and media) increased 3.8% to $2.05 billion on a sales increase of 2.7%.

Operating income decreased $531.3 million to $756.3 million from $1.29 billion. Excluding the effects of the 1997 restructuring charges and related costs, and gains recognized on the sale of certain non-strategic assets, operating income would have increased $30.6 million to $1.32 billion. The increase in operating income, excluding the impact of these non-recurring items, was primarily due to the increase in gross profit as SG&A expenses were relatively flat year-on-year. Domestic operations provided approximately 23% of operating income in 1997 compared to approximately 57% in 1996. Excluding the effects of the 1997 restructuring charges and related costs, and gains recognized on the sale of certain non-strategic assets, domestic operations would have provided approximately 53% of operating income.

Non-operating expenses totaled $277.2 million in 1997 compared to $263.9 million in 1996. Net interest expense increased 1.2% to $235.4 million from $232.6 million.

The effective tax rate was 37.0% in 1997 and 35.6% in 1996. The lower effective tax rate in 1996 reflects the recognition of operating losses overseas. (See Notes 5 and 13 to the Consolidated Financial Statements.)

Net income decreased $357.4 million to $301.9 million from $659.3 million in the prior year and earnings per share decreased to $0.81 from $1.75. After-tax restructuring charges and related costs, net of gains recognized on the sale of certain non-strategic assets, totaled $356.0 million, or $0.95 per share. Excluding the impact of these non-recurring items, net income would have

decreased slightly to $657.9 million and earnings per share would have increased to $1.76. Earnings per share benefited slightly from a reduction in the average number of shares used for the calculation of earnings per share, which was due primarily to the company's share repurchase program.

The impact of fluctuating exchange rates for 1997 remained relatively consistent on a line-by-line basis throughout the Consolidated Statement of Income.

1996 versus 1995: Sales for 1996 increased $1.03 billion, or 13%, to $9.11 billion from $8.09 billion in 1995. The increase was primarily due to acquisitions (net of divestitures) as well as volume and price. Domestic operations contributed approximately 57% of consolidated sales in both 1996 and 1995. Fiscal 1996 comprised 52 weeks compared to 53 weeks in 1995.

Acquisitions (net of divestitures) contributed $617.3 million, or 8%, to the sales increase. Sales benefited from the following Fiscal 1996 acquisitions: PMV/Zabreh, which sells infant formula through pharmacies under the Sunar and Feminar brand names in both the Czech and Slovak Republics; Kecskeméti Konzervgyár RT, which produces jarred baby foods and canned vegetable products in Kecskemet, Hungary; Britwest Ltd.; Fattoria Scaldasole S.p.A.; Craig's; Indian Ocean Tuna Ltd.; Earth's Best, Inc.; and Nature's Recipe. Fiscal 1995 acquisitions impacting the year-to-year sales dollar comparison included: the North American pet food business of the Quaker Oats Company ("the Pet Food Business"); The All American Gourmet Company, maker of The Budget Gourmet brand of frozen meals and side dishes; the Farley's infant foods and adult nutrition business; and the Family Products Division of Glaxo India, Ltd. Divestitures impacting the sales comparison included a domestic bulk oil business and an overseas sweetener business.

Volume increased $313.5 million, or 4%, in 1996. Foreign volume increases occurred in seafood, pasta, Heinz beans, sauces/pastes and infant foods. Domestic volume increased in StarKist tuna, Ore-Ida foodservice frozen potatoes, pasta, coated products, Bagel Bites and Heinz ketchup, offset by decreases in Weight Watchers brand dairy products and single-serve condiments.

Prices increased $85.8 million, or 1%, in 1996. Overseas, prices increased in infant foods, Heinz beans and edible oil. Domestic price increases occurred in Heinz ketchup, single-serve condiments and Ore-Ida retail frozen potatoes while decreases occurred in StarKist tuna, frozen entrees (including weight control) and pet food.

The strengthening of overseas currencies, particularly in New Zealand and Western Europe, against the U.S. dollar increased sales $60.4 million, or less than 1%.

Gross profit increased $369.7 million to $3.34 billion in 1996 from $2.97 billion in 1995. The ratio of gross profit to sales decreased slightly to 36.6% in 1996 from 36.7% in 1995. The gross profit ratio in 1996 was impacted by repositioning the business portfolio through acquisitions and divestitures, cost reductions, profit mix and the effect of increased goodwill amortization associated with acquisitions. In the fourth quarter of 1996, gross profit was also impacted by gains relating to the sale of the *Weight Watchers Magazine* ($0.02 per share) and the sale of two regional dry pet food product lines ($0.02 per share). (See Note 13 to the Consolidated Financial Statements.) The gains were offset in the fourth quarter of 1996 in SG&A expenses by restructuring charges at certain overseas affiliates ($0.01 per share) and an increase in marketing expenses of $27.5 million, or 12%.

SG&A expenses increased $237.9 million to $2.05 billion in 1996 from $1.81 billion in 1995 and increased slightly as a percentage of sales to 22.5% from 22.4%. As a percentage of sales, increased general and administrative expenses (due mainly to acquisitions) and increased

marketing expenses were offset by lower selling and distribution expenses.

Total marketing support (including trade and consumer promotions and media) increased 15% to $1.97 billion on a sales increase of 13%.

Operating income increased $131.8 million, or 11%, to $1.29 billion from $1.16 billion for 1995. The increase in operating income was primarily due to the increase in gross profit, partially offset by increased marketing expenses; higher selling and distribution expenses related to increased volume; and higher general and administrative expenses associated with acquisitions. Domestic operations provided approximately 57% of operating income in both 1996 and 1995.

Attendance at the Weight Watchers meeting business in the U.S. was adversely affected by the severe winter weather and an industry-wide decrease in attendance in 1996. Although the entire domestic weight-loss industry continued to show weakness, the Weight Watchers meetings market share exceeded 50%.

Frozen entree volume (including weight control) was flat in a very competitive marketplace, where downward pricing pressures in the U.S. affected profitability.

Heinz U.K.'s results improved significantly over 1995, primarily as a result of improved sales volumes and prices.

The company's New Zealand affiliate, Wattie's Ltd., experienced operational difficulties as new poultry production facilities were brought on-line during 1996. Poor poultry market conditions also impacted the New Zealand operations, as well as higher commodity prices in the frozen food business and more competitive markets in the frozen food and ice cream businesses.

The company continued to invest in Eastern Europe. In general, the Eastern European operations have progressed, but have not yet contributed margins comparable to the company's traditional product lines.

As expected, cost synergies resulting from the combination of acquired businesses with existing company operations were realized in 1996. In connection with the acquisition of the Pet Food Business, the closure of the cannery at the Topeka, Kansas factory (dedicating that facility to the production of dry pet food) and the combination of selling, distribution and administrative functions with existing company operations produced efficiencies that met or exceeded expectations.

Also during 1996, the Weight Watchers Gourmet Food Company announced the closure of The All American Gourmet plant in Atlanta, Georgia, where operations were phased out in January 1996. Production was consolidated with other company facilities.

Non-operating expenses totaled $263.9 million in 1996 compared to $217.8 million in 1995. Net interest expense increased 34% to $232.6 million from $174.0 million, due mainly to higher average borrowings resulting from 1995 acquisitions and from repurchases of company stock under the stock repurchase program.

The effective tax rate was 35.6% in 1996 and 37.0% in 1995. The 1996 tax rate was favorably affected by the recognition of operating losses overseas and higher profits from operations in lower tax jurisdictions. (See Notes 5 and 13 to the Consolidated Financial Statements.)

Net income increased $68.3 million, or 12%, to $659.3 million in 1996 from $591.0 million in 1995. Earnings per share increased to $1.75 in 1996 from $1.59 in 1995. The average number of shares used for the calculation of earnings per share increased to 377.2 million in 1996 from 372.8 million in 1995, due mainly to increased shares outstanding resulting from stock options exercised, and higher common stock equivalents due to a higher average share price. The increase

in the average number of shares caused 1996 earnings per share to decrease $0.02 per share compared to 1995.

The impact of fluctuating exchange rates for 1996 remained relatively consistent on a line-by-line basis throughout the Consolidated Statement of Income.

LIQUIDITY AND FINANCIAL POSITION

Return on average shareholders' equity (ROE) was 11.7% in 1997 (23.9% excluding the restructuring charges and related costs recorded in Fiscal 1997 for Project Millennia, net of gains recognized on the sale of certain non-strategic assets), 25.5% in 1996 and 24.6% in 1995. Pretax return on average invested capital (ROIC) was 12.6% in 1997 (21.4% excluding the items mentioned above), 21.8% in 1996 and 22.1% in 1995.

Cash provided by operating activities was $875.0 million in 1997, compared to $737.1 million in 1996. The increase in 1997 versus 1996 was primarily the result of lower working capital requirements resulting from the company's program to eliminate inefficient end-of-quarter trade promotion practices, offset partially by expenditures related to the restructuring program.

In 1996, cash provided by operating activities decreased slightly to $737.1 million, from $752.5 million in 1995. The decrease was the result of higher working capital needs, due mainly to higher sales levels.

Cash used for investing activities was $386.3 million in 1997 versus $290.1 million in 1996. In 1997, the company spent $208.4 million on acquisitions compared to $156.0 million in 1996. (See Note 2 to the Consolidated Financial Statements.) Proceeds from divestitures totaled $165.6 million in 1997 versus $82.1 million in 1996. (See Note 3 to the Consolidated Financial Statements.)

Capital expenditures totaled $377.5 million in 1997 and $334.8 million in 1996. Both years reflect expenditures for productivity improvements and plant expansions, principally at the company's United Kingdom, Heinz Pet Products, Ore-Ida, StarKist Seafood, Heinz U.S.A., Heinz Bakery Products, Weight Watchers Gourmet Food Company, Heinz Italia and Wattie's operations.

Purchases and sales/maturities of short-term investments increased in 1997. The company periodically sells a portion of its short-term investment portfolio in order to reduce its borrowings. In 1995, increased activity provided liquidity to fund various acquisitions. Investments in tax benefits provided $62.1 million in 1996, due mainly to the company's sale of certain domestic investments.

Financing activities used $429.8 million in 1997 compared to $470.8 million in 1996. The company borrowed funds totaling $82.0 million in 1997 versus making net repayments of $81.7 million in 1996. Cash used for dividends paid to shareholders increased by $35.0 million, while treasury stock purchases increased $121.8 million. Stock options exercised provided an additional $39.2 million in 1997 compared to 1996.

The average amount of short-term debt outstanding (excluding the long-term portion of domestic commercial paper) during 1997, 1996 and 1995 was $520.5 million, $1.52 billion and $1.15 billion, respectively. Total short-term debt had a weighted-average interest rate during 1997 of 7.6% and at year-end of 6.1%. The weighted-average interest rate on short-term debt during 1996 was 6.5% and at year-end was 6.2%.

Aggregate domestic commercial paper had a weighted-average interest rate during 1997 of 5.4% and at year-end of 5.6%. In 1996, the weighted-average rate was 5.8% and the rate at year-end was 5.4%. Based upon the amount of commercial paper recorded at April 30, 1997, a variance

of 1/8% in the related interest rate would cause interest expense to change by approximately $1.8 million. The company continues to evaluate long-term financing vehicles in order to reduce short-term variable interest rate debt.

On August 29, 1996, the company amended the line of credit agreements which support its domestic commercial paper programs, increasing availability and extending maturity dates. The amended terms provide for one agreement totaling $2.30 billion that expires in September 2001. The previous agreements provided for lines of credit totaling $2.00 billion, of which $1.20 billion was scheduled to expire in September 1996 and $800.0 million was scheduled to expire in September 2000.

As of April 30, 1997, $1.35 billion of domestic commercial paper is classified as long-term debt due to the long-term nature of the supporting line of credit agreements. At May 1, 1996, $800.0 million of domestic commercial paper outstanding was classified as long-term. As of May 1, 1996, domestic commercial paper of $450.0 million was privately placed. As of April 30, 1997, there was no privately placed domestic commercial paper outstanding.

On September 10, 1996, the Board of Directors raised the quarterly dividend on the company's common stock to $0.29 per share from $0.26½ per share, for an indicated annual rate of $1.16 per share. The company paid $417.0 million in dividends to both common and preferred shareholders, an increase of $35.0 million, or 9.2%, over 1996. The dividend rate in effect at the end of each year resulted in a payout ratio of 143.2% in 1997 (65.9% excluding the restructuring charges and related costs recorded in Fiscal 1997 for Project Millennia, net of gains recognized on the sale of certain non-strategic assets), 60.6% in 1996 and 60.5% in 1995.

In 1997, the company repurchased 7.9 million shares of treasury stock, or 2% of the amount outstanding at the beginning of Fiscal 1997, at a cost of $277.0 million. As of April 30, 1997, the company had repurchased 3.3 million shares as part of the current 15.0 million share repurchase program, which was authorized by the Board of Directors on July 10, 1996. The previous 15.0 million share repurchase program, which was authorized by the Board of Directors on September 13, 1994, was completed in October 1996. During 1996, 4.8 million shares were repurchased at a cost of $155.2 million. The company may reissue repurchased shares upon the exercise of stock options, conversion of preferred stock and for general corporate purposes.

Components of the charge for Project Millennia requiring the utilization of cash total $304.0 million, against which $93.2 million was spent in Fiscal 1997. The company expects to spend a significant portion of the remainder during Fiscal 1998. In addition, the company expects to make capital expenditures totaling approximately $250 million over the life of the program, with a significant portion to be spent in Fiscal 1998. The company expects to finance the cash requirements of the program through operations, proceeds from the sale of non-strategic assets and with borrowings under the company's currently existing credit arrangements. The cash requirements of Project Millennia will not have a significant impact on the company's liquidity or financial position.

During 1995, the company participated in the formation of a business (the "entity") which purchases a portion of the trade receivables generated by the company. The company sells receivables to Jameson, Inc., a wholly owned subsidiary, which then sells undivided interests in the receivables to the entity. Outside investors contributed $95.4 million in capital to the entity. The company consolidates the entity, and the capital contributed by the outside investors is classified as minority interest ("other long-term liabilities") on the Consolidated Balance Sheets.

The company uses derivative financial instruments for the purpose of hedging currency, commodity price and interest rate exposures which exist as part of ongoing business operations. As a policy, the company does not engage in speculative or leveraged transactions, nor does the company hold or issue financial instruments for trading purposes. (See Notes 1 and 12 to the Consolidated Financial Statements.)

The impact of inflation on both the company's financial position and results of operations has been minimal and is not expected to adversely affect 1998 results.

The company's financial position continues to remain strong, enabling it to meet cash requirements for operations, capital expansion programs and dividends to shareholders.

RECENT DEVELOPMENTS

On June 30, 1997, the company completed the sale of its frozen foodservice foods business to McCain Foods Limited of New Brunswick, Canada for approximately $500 million. The transaction included the sale of Heinz's Ore-Ida appetizer, pasta and potato foodservice business and the five Ore-Ida plants that manufacture the products. The Ore-Ida foodservice business contributed approximately $525 million in net sales for Fiscal 1997. The sale is not expected to have an adverse impact on the company's results of operations.

On June 30, 1997, the company acquired John West Foods Limited from Unilever. John West Foods Limited, with annual sales of more than $250 million, is the leading brand of canned tuna and fish in the United Kingdom. Based in Liverpool, John West Foods Limited sells its canned fish products throughout Continental Europe and in a number of other international markets. (John West operations in Australia, New Zealand and South Africa are not included in the transaction.)

STOCK MARKET INFORMATION

H.J. Heinz Company common stock is traded principally on the New York Stock Exchange and the Pacific Stock Exchange, under the symbol HNZ. The number of shareholders of record of the company's common stock as of June 27, 1997 approximated 67,754. The closing price of the common stock on the New York Stock Exchange composite listing on April 30, 1997 was $41½.

Stock price information for common stock by quarter follows:

	Stock Price Range	
	High	*Low*
1997		
First	**$34**	**$29¾**
Second	**36⅛**	**31¼**
Third	**41½**	**35¼**
Fourth	**44⅞**	**38⅛**
1996		
First	$31⅜	$27⅝
Second	31⅞	27⅝
Third	34⅞	30⅝
Fourth	36⅝	30⅜

SEGMENT AND GEOGRAPHIC DATA

The company is engaged principally in one line of business—processed food products—which represents more than 90% of consolidated sales. The following table presents information about the company by geographic area. There were no material amounts of sales or transfers among geographic areas and no material amounts of United States export sales.

(Dollars in thousands)	*Domestic*	*Foreign*	*Worldwide*	*North America*	*Europe*	*Asia/Pacific*	*Other*
1997							
Sales	**$5,169,779**	**$4,187,228**	**$9,357,007**	**$5,586,730**	**$2,281,364**	**$1,129,788**	**$359,125**
Operating income	**174,280**	**581,991**	**756,271**	**208,585**	**320,347**	**166,552**	**60,787**
Operating income excluding restructuring related items*	**704,880**	**613,309**	**1,318,189**	**751,685**	**374,202**	**130,515**	**61,787**
Identifiable assets	**4,474,740**	**3,963,047**	**8,437,787**	**4,941,301**	**2,241,006**	**995,762**	**259,718**
Capital expenditures†	**192,682**	**184,775**	**377,457**	**213,574**	**102,677**	**31,442**	**29,764**
Depreciation and amortization expense	**203,587**	**136,903**	**340,490**	**221,249**	**81,932**	**29,944**	**7,365**
1996							
Sales	$5,235,847	$3,876,418	$9,112,265	$5,598,286	$2,133,690	$1,085,747	$294,542
Operating income	739,807	547,765	1,287,572	801,090	336,481	114,239	35,762
Identifiable assets	4,801,790	3,821,901	8,623,691	5,099,632	2,289,919	978,292	255,848
Capital expenditures†	185,874	148,913	334,787	195,517	65,485	40,294	33,491
Depreciation and amortization expense	206,912	136,897	343,809	224,824	72,530	30,674	15,781
1995							
Sales	$4,628,507	$3,458,287	$8,086,794	$4,982,959	$1,881,013	$1,006,198	$216,624
Operating income	656,897	498,912	1,155,809	715,592	282,941	121,951	35,325
Identifiable assets	4,812,122	3,435,066	8,247,188	5,161,418	1,979,351	919,988	186,431
Capital expenditures†	188,099	153,689	341,788	201,912	72,384	48,435	19,057
Depreciation and amortization expense	197,009	118,258	315,267	213,243	68,122	28,214	5,688

** Excludes domestic and foreign charges for restructuring and related costs of $530.6 million and $116.6 million, respectively. Also excludes gains on the sale of an ice cream business in New Zealand and real estate in the U.K. of $72.1 million and $13.2 million, respectively.*

† Excludes property, plant and equipment acquired through acquisitions.

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

H.J. Heinz Company and Subsidiaries

Fiscal Year Ended *(Dollars in thousands, except per share data)*	*April 30, 1997* *(52 weeks)*	*May 1, 1996* *(52 weeks)*	*May 3, 1995* *(53 weeks)*
CONSOLIDATED STATEMENTS OF INCOME:			
Sales	$9,357,007	$9,112,265	$8,086,794
Cost of products sold	6,385,091	5,775,357	5,119,597
Gross profit	2,971,916	3,336,908	2,967,197
Selling, general and administrative expenses	2,215,645	2,049,336	1,811,388
Operating income	756,271	1,287,572	1,155,809
Interest income	39,359	44,824	36,566
Interest expense	274,746	277,411	210,585
Other expense, net	41,820	31,324	43,783
Income before income taxes	479,064	1,023,661	938,007
Provision for income taxes	177,193	364,342	346,982
Net income	$ 301,871	$ 659,319	$ 591,025
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS:			
Amount at beginning of year	$4,156,380	$3,878,988	$3,633,385
Net income	301,871	659,319	591,025
Cash dividends:			
Common stock	416,923	381,871	345,358
Preferred stock	43	56	64
Amount at end of year	$4,041,285	$4,156,380	$3,878,988
PER COMMON SHARE AMOUNTS:			
Net income	$ 0.81	$ 1.75	$ 1.59
Cash dividends	$ 1.13½	$ 1.03½	$ 0.94
Average shares for earnings per share	373,703,246	377,155,837	372,806,306

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

H.J. Heinz Company and Subsidiaries

Assets (Dollars in thousands)	*April 30, 1997*	*May 1, 1996*
CURRENT ASSETS:		
Cash and cash equivalents	$ 156,986	$ 90,064
Short-term investments, at cost which approximates market	31,451	18,316
Receivables (net of allowances: 1997 – $18,934 and 1996 – $17,298)	1,118,874	1,207,874
Inventories:		
Finished goods and work-in-process	1,040,104	1,115,367
Packaging material and ingredients	392,407	378,596
	1,432,511	1,493,963
Prepaid expenses	208,246	221,669
Other current assets	65,038	14,806
Total current assets	3,013,106	3,046,692
PROPERTY, PLANT AND EQUIPMENT:		
Land	55,992	62,243
Buildings and leasehold improvements	871,417	824,308
Equipment, furniture and other	3,453,189	3,333,493
	4,380,598	4,220,044
Less accumulated depreciation	1,901,378	1,603,216
Total property, plant and equipment, net	2,479,220	2,616,828
OTHER NON-CURRENT ASSETS:		
Goodwill (net of amortization: 1997 – $259,019 and 1996 – $211,693)	1,803,552	1,737,478
Other intangibles (net of amortization: 1997 – $163,232 and 1996 – $141,886)	627,096	649,048
Other non-current assets	514,813	573,645
Total other non-current assets	2,945,461	2,960,171
Total assets	$8,437,787	$8,623,691

See Notes to Consolidated Financial Statements.

Liabilities and Shareholders' Equity (Dollars in thousands)	April 30, 1997	May 1, 1996
CURRENT LIABILITIES:		
Short-term debt	$ 589,893	$ 994,586
Portion of long-term debt due within one year	573,549	87,583
Accounts payable	865,154	870,337
Salaries and wages	64,836	72,678
Accrued marketing	164,354	146,055
Accrued restructuring costs	210,804	–
Other accrued liabilities	315,662	368,182
Income taxes	96,163	175,701
Total current liabilities	2,880,415	2,715,122
LONG-TERM DEBT AND OTHER LIABILITIES:		
Long-term debt	2,283,993	2,281,659
Deferred income taxes	265,409	319,936
Non-pension postretirement benefits	211,500	209,994
Other	356,049	390,223
Total long-term debt and other liabilities	3,116,951	3,201,812
SHAREHOLDERS' EQUITY:		
Capital stock:		
Third cumulative preferred, $1.70 first series, $10 par value	241	271
Common stock, 431,096,485 shares issued, $.25 par value	107,774	107,774
	108,015	108,045
Additional capital	175,811	154,602
Retained earnings	4,041,285	4,156,380
Cumulative translation adjustments	(210,864)	(155,753)
	4,114,247	4,263,274
Less:		
Treasury shares, at cost (63,912,463 shares at April 30, 1997 and 62,498,417 shares at May 1, 1996)	1,629,501	1,500,866
Unfunded pension obligation	26,962	32,550
Unearned compensation relating to the ESOP	17,363	23,101
Total shareholders' equity	2,440,421	2,706,757
Total liabilities and shareholders' equity	$8,437,787	$8,623,691

CONSOLIDATED STATEMENTS OF CASH FLOWS

H.J. Heinz Company and Subsidiaries

Fiscal Year Ended *(Dollars in thousands)*	*April 30, 1997* *(52 weeks)*	*May 1, 1996* *(52 weeks)*	*May 3, 1995* *(53 weeks)*
OPERATING ACTIVITIES:			
Net income	$ 301,871	$ 659,319	$ 591,025
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	244,388	254,640	238,229
Amortization	96,102	89,169	77,038
Deferred tax (benefit) provision	(33,450)	135,235	134,304
Gain on sale of New Zealand ice cream business and U.K. real estate	(85,282)	–	–
Provision for restructuring	647,200	–	–
Other items, net	(42,527)	(82,198)	(43,680)
Changes in current assets and liabilities, excluding effects of acquisitions and divestitures:			
Receivables	74,445	(222,894)	(77,039)
Inventories	(5,329)	(102,269)	(87,580)
Prepaid expenses and other current assets	5,094	(14,361)	(27,634)
Accounts payable	18,003	126,596	111,361
Accrued liabilities	(182,555)	(114,015)	(72,644)
Income taxes	(162,962)	7,866	(90,874)
Cash provided by operating activities	874,998	737,088	752,506
INVESTING ACTIVITIES:			
Capital expenditures	(377,457)	(334,787)	(341,788)
Acquisitions, net of cash acquired	(208,383)	(156,006)	(1,178,819)
Proceeds from divestitures	165,555	82,061	52,497
Purchases of short-term investments	(1,223,884)	(982,824)	(1,808,327)
Sales and maturities of short-term investments	1,233,919	1,050,971	1,800,992
Investment in tax benefits	139	62,081	14,436
Other items, net	23,798	(11,637)	(12,819)
Cash (used for) investing activities	(386,313)	(290,141)	(1,473,828)
FINANCING ACTIVITIES:			
Proceeds from long-term debt	47,483	4,860	573,689
Payments on long-term debt	(99,176)	(46,791)	(10,209)
Proceeds from (payments on) commercial paper and short-term borrowings	133,732	(39,745)	630,310
Dividends	(416,966)	(381,927)	(345,422)
Purchase of treasury stock	(277,046)	(155,200)	(273,671)
Proceeds from minority interest	–	–	95,400
Exercise of stock options	135,082	95,853	44,263
Other items, net	47,131	52,149	19,047
Cash (used for) provided by financing activities	(429,760)	(470,801)	733,407
Effect of exchange rate changes on cash and cash equivalents	7,997	(10,420)	13,717
Net increase (decrease) in cash and cash equivalents	66,922	(34,274)	25,802
Cash and cash equivalents at beginning of year	90,064	124,338	98,536
Cash and cash equivalents at end of year	$ 156,986	$ 90,064	$ 124,338

See Notes to Consolidated Financial Statements.

1. SIGNIFICANT ACCOUNTING POLICIES

Fiscal Year: H.J. Heinz Company (the "company") operates on a 52- or 53-week fiscal year ending the Wednesday nearest April 30. However, certain foreign subsidiaries have earlier closing dates to facilitate timely reporting. Fiscal years for the financial statements included herein ended April 30, 1997, May 1, 1996 and May 3, 1995.

Principles of Consolidation: The consolidated financial statements include the accounts of the company and its subsidiaries. All intercompany accounts and transactions were eliminated. Certain prior-year amounts have been reclassified in order to conform with the 1997 presentation.

Use of Estimates: The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Translation of Foreign Currencies: For all significant foreign operations, the functional currency is the local currency. Assets and liabilities of these operations are translated at the exchange rate in effect at each year-end. Income statement accounts are translated at the average rate of exchange prevailing during the year. Translation adjustments arising from the use of differing exchange rates from period to period are included as a component of shareholders' equity. Gains and losses from foreign currency transactions are included in net income for the period.

Cash Equivalents: Cash equivalents are defined as highly liquid investments with original maturities of 90 days or less.

Inventories: Inventories are stated at the lower of cost or market. Cost is determined principally under the average cost method.

Property, Plant and Equipment: Land, buildings and equipment are recorded at cost. For financial reporting purposes, depreciation is provided on the straight-line method over the estimated useful lives of the assets. Accelerated depreciation methods are generally used for income tax purposes. Expenditures for new facilities and improvements that substantially extend the capacity or useful life of an asset are capitalized. Ordinary repairs and maintenance are expensed as incurred. When property is retired or otherwise disposed, the cost and related depreciation are removed from the accounts and any related gains or losses are included in income.

Intangibles: Goodwill and other intangibles arising from acquisitions are being amortized on a straight-line basis over periods not exceeding 40 years. The company regularly reviews the individual components of the balances by evaluating the future cash flows of the businesses to determine the recoverability of the assets and recognizes, on a current basis, any diminution in value.

Long-Lived Assets: On May 2, 1996, the company adopted Statement of Financial Accounting Standard ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The implementation of this standard did not have a material effect on results of operations or financial position.

Revenue Recognition: The company generally recognizes revenue upon shipment of goods to customers or upon performance of services. However, in certain overseas countries, revenue is recognized upon receipt of the product by the customer.

Advertising Expenses: Advertising costs are generally expensed in the year in which the advertising first takes place.

Income Taxes: Deferred income taxes result primarily from temporary differences between financial and tax reporting. If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recognized.

The company has not provided for possible U.S. taxes on the undistributed earnings of foreign subsidiaries that are considered to be reinvested indefinitely. Calculation of the unrecognized deferred tax liability for temporary differences related to these earnings is not practicable. Where it is contemplated that earnings will be remitted, credit for foreign taxes already paid generally will offset applicable U.S. income taxes. In cases where they will not offset U.S. income taxes, appropriate provisions are included in the Consolidated Statements of Income.

Net Income Per Common Share: Net income per common share has been computed by dividing income applicable to common shareholders by the weighted-average number of shares of common stock outstanding and common stock equivalents during the respective years. Fully diluted earnings per share are not significantly different from primary earnings per share and, accordingly, are not presented.

In February 1997, the FASB issued SFAS No. 128, "Earnings Per Share," effective for financial statements issued for periods ending after December 15, 1997. The new standard specifies the computation, presentation and disclosure requirements for earnings per share for entities with publicly held common stock. Since early adoption of the standard is prohibited, pro forma earnings per share amounts computed using the new standard are presented below.

	Fiscal Year Ended		
	1997	*1996*	*1995*
As presented	**$0.81**	$1.75	$1.59
Pro forma:			
Basic earnings per share	**$0.82**	$1.79	$1.61
Diluted earnings per share	**$0.81**	$1.75	$1.59

Stock-Based Employee Compensation Plans: Stock-based compensation is accounted for by using the intrinsic value-based method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees."

Financial Instruments: The company uses derivative financial instruments for the purpose of hedging currency, price and interest rate exposures which exist as part of ongoing business operations. As a policy, the company does not engage in speculative or leveraged transactions, nor does the company hold or issue financial instruments for trading purposes.

☐ *Interest Rate Swap Agreements:* The company may utilize interest rate swap agreements to lower funding costs, to diversify sources of funding or to alter interest rate exposure. Amounts paid or received on interest rate swap agreements are deferred and recognized as adjustments to interest expense. Gains and losses realized upon the settlement of such contracts are deferred and amortized to interest expense over the remaining term of the debt instrument or are recognized immediately if the underlying instrument is settled.

☐ *Foreign Currency Contracts:* The company enters into forward, option and swap contracts to hedge transactions denominated in foreign currencies in order to reduce the currency risk associated with fluctuating exchange rates. Such contracts are used primarily to hedge purchases of certain raw materials and finished goods and payments arising from certain intercompany transactions with foreign subsidiaries. Gains and losses are deferred in the cost basis of the underlying transaction.

☐ *Commodity Contracts:* In connection with purchasing certain commodities for future manufacturing requirements, the company enters into commodities futures and option contracts, as deemed appropriate, to reduce the effect of price fluctuations. Such contracts are accounted for as hedges, with gains and losses recognized as part of cost of products sold, and generally have a term of less than one year.

The cash flows related to the above financial instruments are classified in the Statements of Cash Flows in a manner consistent with those of the transactions being hedged.

Business Segment Information: Information concerning business segment and geographic data is in Management's Discussion and Analysis.

2. ACQUISITIONS

All of the following acquisitions have been accounted for as purchases and, accordingly, the respective purchase prices have been allocated to the respective assets and liabilities based upon their estimated fair values as of the acquisition date. Operating results of businesses acquired have been included in the Consolidated Statements of Income from the respective acquisition dates forward.

Fiscal 1997: The company acquired the following businesses for a total of $222.6 million, including notes to seller of $14.2 million. The preliminary allocations of the purchase price resulted in goodwill of $144.9 million and other intangible assets of $26.9 million, which will be amortized on a straight-line basis over periods not exceeding 40 years.

On November 4, 1996, the company acquired the assets of the canned beans and pasta business of Nestlé Canada Inc., together with a two-year license to use the Libby's brand. Under the agreement, the company also acquired the trademarks Deep-Browned Beans, Alpha-Getti and Zoodles, among others.

On September 23, 1996, the company acquired substantially all of the pet food businesses of Martin Feed Mills Limited of Elmira, Ontario. Martin produces and markets cat and dog food throughout Canada and also exports to Japan and Europe. Martin sells pet food under the Techni-Cal brand and markets products under the Medi-Cal label through veterinary offices and clinics.

On July 10, 1996, the company acquired Southern Country Foods Limited in Australia, one of the world's largest producers of canned corned beef and meals. During Fiscal 1997, the company also made other smaller acquisitions.

Pro forma results of the company, assuming the Fiscal 1997 acquisitions had been made at the beginning of each period presented, would not be materially different from the results reported.

Fiscal 1996: The company acquired the following businesses for a total of $193.4 million, including notes to sellers of $37.4 million. The allocations of purchase price resulted in goodwill of $128.1 million and other intangibles of $6.6 million, which is being amortized on a straight-line basis over periods not exceeding 40 years.

On March 28, 1996, the company acquired the Nature's Recipe business, which markets a brand of premium specialty pet foods.

On March 6, 1996, the company acquired Earth's Best, Inc., which produces a leading brand of premium, organic baby foods and will complement the company's range of infant cereals, juices and strained and junior foods.

The company acquired a majority interest in PMV/Zabreh, a producer of infant formulas and dairy products located in Zabreh, Moravia, Czech Republic.

The company increased its investment to 97% of Kecskeméti Konzervgyár RT, which produces jarred baby foods and canned vegetable products in Kecskemet, Hungary.

Other small acquisitions were also made during Fiscal 1996, including Fattoria Scaldasole S.p.A., which is a processor of organic foods in Italy; Alimentos Pilar S.A. of Argentina, a leading producer of pet and animal feed; the Craig's brand of jams and dressings in New Zealand; the Mareblu brand of canned tuna, which is sold exclusively in Italy; a majority interest in Indian Ocean Tuna Ltd., located in the Seychelles; and Britwest Ltd., which markets single-serve condiments, beverages and sauces in Britain and France.

Pro forma results of the company, assuming the Fiscal 1996 acquisitions had been made at the beginning of each period presented, would not be materially different from the results reported.

Fiscal 1995: On March 14, 1995, the company completed the acquisition of the North American pet food businesses of The Quaker Oats Company (the "Pet Food Business") for approximately $725 million. The acquisition has significantly strengthened the company's presence in the pet food industry. The funds used to acquire the Pet Food Business were provided primarily through the issuance of privately placed commercial paper.

The allocation of the purchase price has resulted in goodwill of $532.5 million and other intangible assets of $146.2 million. These items are being amortized on a straight-line basis over periods not exceeding 40 years.

The following pro forma information combines the consolidated results of operations as if the acquisition of the Pet Food Business had been consummated as of the beginning of

Fiscal 1995, after including the impact of certain adjustments. Adjustments include (i) the amortization of goodwill and other intangibles; (ii) interest expense related to the acquisition debt; (iii) depreciation on the restated values of property, plant and equipment; and (iv) the related income tax effects.

(Dollars in thousands, except per share amounts)	*1995 (Unaudited)*
Sales	$8,502,405
Net income	$ 585,803
Net income per share	$ 1.57

In connection with the acquisition of the Pet Food Business, the company established certain opening balance sheet accruals for employee severance and relocation costs (approximately $7 million) and facilities consolidation and closure costs (exit costs of approximately $24 million) based upon a preliminary assessment of such actions to be undertaken. The aforementioned amounts were included in "other accrued liabilities" as of May 3, 1995.

During 1996, management finalized integration plans and made minor adjustments to the opening balance sheet, while approximately $29 million was spent against the established accruals. As of May 1, 1996, remaining accruals were considered adequate for any severance, relocation or exit costs associated with the acquisition.

During 1995, the company also acquired the following other businesses (the "other 1995 acquisitions").

On December 2, 1994, the company acquired The All American Gourmet Company for a purchase price of approximately $200 million. The All American Gourmet Company produces The Budget Gourmet brand of frozen meals and side dishes.

On September 30, 1994, the company acquired the Family Products Division of Glaxo India, Ltd. for a purchase price of approximately $65 million. The Family Products Division, based in Bombay, India, produces a wide range of nutritional drinks, baby food and other consumer products.

On July 22, 1994, the company acquired the Farley's infant foods and adult nutrition business from The Boots Company PLC of Nottingham, England for a total purchase price of approximately $140 million.

On May 16, 1994, the company acquired the Borden Foodservice Group, a unit of Borden, Inc. The group's product range includes a single-serve line of condiments. Other acquisitions during 1995 included Dega, a foodservice products company located in Italy.

The allocation of the purchase prices of the other 1995 acquisitions (excluding the Pet Food Business) has resulted in goodwill of $142.0 million and other intangible assets of $168.3 million, which will be amortized on a straight-line basis over periods not exceeding 40 years.

The company established opening balance sheet accruals for the other 1995 acquisitions for employee severance and relocation costs (approximately $9 million) and facilities consolidation and closure costs (exit costs of approximately $37 million) based upon a preliminary assessment of such actions to be undertaken. These amounts were included in "other accrued liabilities" as of May 3, 1995.

During 1996, accruals for exit costs were reduced by approximately $23 million, resulting in a corresponding reduction to goodwill. This was primarily attributable to not pursuing a course of action that was anticipated at the acquisition date. Also during 1996, approximately $15 million was spent against the accruals established for employee severance and relocation costs, and exit costs. As of May 1, 1996, remaining accruals were considered adequate for any severance, relocation or exit costs associated with the other 1995 acquisitions.

On an unaudited pro forma basis, the sales of the company, as if the acquisition of the Pet Food Business and the other 1995 acquisitions were made as of the beginning of Fiscal 1995, would be $8.7 billion. The results of operations would not be materially different from those reported.

Pro forma results are not necessarily indicative of what actually would have occurred if the acquisitions had been in effect for all of Fiscal 1995. In addition, they are not intended to be a projection of future results and do not reflect any synergies that might be achieved from combined operations.

3. DIVESTITURES

During 1997 and 1996, the company sold several non-strategic businesses. Pro forma results of the company, assuming all of the divestitures had been made at the beginning of each period presented, would not be materially different from the results reported.

In the fourth quarter of Fiscal 1997, the company sold its New Zealand ice cream business to Peters & Brownes Limited of Perth, Australia for approximately $150 million. The pretax gain on the divestiture totaled $72.1 million, or $0.12 per share.

Fiscal 1996 divestitures included: an overseas sweetener business, the *Weight Watchers Magazine* and two regional dry pet food product lines. (See Note 13 to the Consolidated Financial Statements.)

4. RESTRUCTURING CHARGES

Charges related to the company's reorganization and restructuring program ("Project Millennia") were recorded in Fiscal 1997 and were recognized to reflect the closure or divestiture of approximately 25 facilities throughout the world, the net reduction of the global workforce by approximately 2,500 (excluding the businesses or facilities to be sold), and other initiatives involving the exit of certain underperforming businesses and product lines.

Restructuring and related costs recorded in Fiscal 1997 totaled $647.2 million pretax or $1.09 per share. Pretax charges of $477.8 million are classified as cost of products sold and $169.4 million as selling, general and administrative expenses.

The major components of the Fiscal 1997 charges and the remaining accrual balance as of April 30, 1997 were as follows:

(Dollars in millions)	Charge	Amounts Utilized	Accrued Restructuring Costs
Employee termination and severance costs	$164.5	$ (32.1)*	$132.4
Exit costs	158.4	(80.0)	78.4
Non-cash asset write-downs	324.3	(324.3)	–
	$647.2	$(436.4)	$210.8

* *Includes $18.9 million in non-cash charges resulting from termination benefit programs.*

Asset write-downs consist primarily of fixed asset and other long-term asset impairments that were recorded as a direct result of the company's decision to exit businesses or facilities ($206.8 million). Such assets were written down based on management's estimate of fair value. Write-downs were also recognized for estimated losses from disposals of inventories, packaging materials and other assets related to product line rationalizations and process changes as a direct result of the company's decision to exit businesses or facilities ($117.5 million).

5. INCOME TAXES

The following table summarizes the provision/(benefit) for U.S. federal and U.S. possessions, state and foreign taxes on income.

(Dollars in thousands)	1997	1996	1995
Current:			
U.S. federal and U.S. possessions	$ 67,274	$106,848	$114,819
State	6,458	11,475	19,106
Foreign	136,911	110,784	78,753
	210,643	229,107	212,678
Deferred:			
U.S. federal and U.S. possessions	(38,988)	87,239	47,676
State	(10,763)	10,408	6,897
Foreign	16,301	37,588	79,731
	(33,450)	135,235	134,304
Total tax provision	$177,193	$364,342	$346,982

The tax benefit resulting from adjustments to the beginning-of-the-year valuation allowance, due to a change in circumstances, to recognize the realizability of deferred tax assets in future years totaled $1.1 million in 1997, $12.5 million in 1996 and $3.1 million in 1995. The 1996 tax provision was reduced by $24.9 million due to the recognition of foreign tax losses. Tax

expense resulting from allocating certain tax benefits directly to additional capital totaled $33.8 million in 1997 and $41.7 million in 1996.

The components of income before income taxes consist of the following:

(Dollars in thousands)	1997	1996	1995
Domestic	$ (47,219)	$ 500,034	$495,159
Foreign	526,283	523,627	442,848
	$479,064	$1,023,661	$938,007

The differences between the U.S. federal statutory tax rate and the company's consolidated effective tax rate are as follows:

	1997	1996	1995
U.S. federal statutory tax rate	35.0%	35.0%	35.0%
Tax on income of foreign subsidiaries	5.6	2.2	2.6
State income taxes (net of federal benefit)	(0.2)	1.8	2.1
Net valuation allowance	(0.7)	(1.3)	2.2
Tax credits	(2.1)	(0.2)	(2.7)
Earnings repatriation	5.5	1.3	(0.1)
Recognition of foreign tax losses	(0.7)	(2.4)	(0.1)
Tax on income of U.S. possessions subsidiaries	(2.8)	(1.7)	(1.4)
Other	(2.6)	0.9	(0.6)
Effective tax rate	37.0%	35.6%	37.0%

The deferred tax (assets) and deferred tax liabilities recorded on the balance sheets as of April 30, 1997 and May 1, 1996 are as follows:

(Dollars in thousands)	1997	1996
Depreciation/amortization	$ 448,327	$ 420,179
Benefit plans	73,081	69,040
Other	87,223	133,673
	608,631	622,892
Provision for estimated expenses	(188,220)	(45,910)
Operating loss carryforwards	(51,685)	(55,717)
Benefit plans	(100,327)	(122,448)
Tax credit carryforwards	(3,845)	(52,924)
Other	(112,607)	(142,609)
	(456,684)	(419,608)
Valuation allowance	5,459	35,594
Net deferred tax liabilities	$ 157,406	$ 238,878

At the end of 1997, net operating loss carryforwards totaled $121.5 million. Of that amount, $79.6 million expire between 1998 and 2010; the other $41.9 million do not expire. Foreign tax credit carryforwards total $3.8 million and expire through 2001.

The company's consolidated United States income tax returns have been audited by the Internal Revenue Service for all years through 1991.

Undistributed earnings of foreign subsidiaries considered to be reinvested permanently amounted to $2.35 billion at April 30, 1997.

The net change in the valuation allowance for deferred tax assets was a decrease of $30.1 million. The majority of this decrease, $27.0 million, partially offset the charge incurred for earnings repatriation due to the utilization of foreign tax credit carryforwards.

6. DEBT

Short-Term (Dollars in thousands)	*1997*	*1996*
Commercial paper	$ 97,008	$685,067
Bank and other borrowings	492,885	309,519
	$589,893	$994,586

On August 29, 1996, the company amended the line of credit agreements that support its domestic commercial paper programs, increasing availability and extending maturity dates. The amended terms provide for one agreement totaling $2.30 billion that expires in September 2001. The previous agreements provided for lines of credit totaling $2.00 billion, of which $1.20 billion was scheduled to expire in September 1996 and $800.0 million was scheduled to expire in September 2000.

At April 30, 1997, the company had $1.35 billion of domestic commercial paper outstanding. Due to the long-term nature of the amended credit agreement, all of the outstanding domestic commercial paper has been classified as long-term debt as of April 30, 1997. As of May 1, 1996, $1.48 billion of domestic commercial paper was outstanding, of which $800.0 million was classified as long-term debt due to the long-term nature of the supporting line of credit agreements. Aggregate domestic commercial paper had a weighted-average interest rate during 1997 of 5.4% and at year-end of 5.6%. In 1996, the weighted-average rate was 5.8% and the rate at year-end was 5.4%.

Total short-term debt had a weighted-average interest rate during 1997 of 7.6% and at year-end of 6.1%. The weighted-average interest rate on short-term debt during 1996 was 6.5% and at year-end was 6.2%.

The company had $850.3 million of other foreign lines of credit available at year-end, principally for overdraft protection.

Long-Term (Dollars in thousands)	*Range of Interest*	*Maturity (Fiscal Year)*	*1997*	*1996*
United States Dollars:				
Commercial paper	Variable	2002	$1,346,779	$ 800,000
Senior unsecured notes	5.50–6.88%	1998–2003	749,681	749,532
Eurodollar bonds	7.50–8.00	1998–2000	551,423	628,119
Revenue bonds	3.10–11.25	1999–2027	16,121	10,781
Promissory notes	4.00–10.00	1998–2005	49,220	60,154
Other	Variable	1998	7,072	6,797
			2,720,296	2,255,383
Foreign Currencies (U.S. Dollar Equivalents):				
Promissory notes:				
Pounds sterling	8.85%	1998–2006	41,260	51,100
Italian lire	8.50–12.55	1998–2004	28,209	34,487
Australian dollar	7.35	1998–2002	28,323	–
Other	6.95–14.90	1998–2022	39,454	28,272
			137,246	113,859
Total long-term debt			2,857,542	2,369,242
Less portion due within one year			573,549	87,583
			$2,283,993	$2,281,659

The amount of long-term debt that matures in each of the four years succeeding 1998 is: $30.3 million in 1999, $590.4 million in 2000, $19.0 million in 2001 and $1.37 billion in 2002.

On January 5, 1995, the company issued $300.0 million of three-year 8.0% notes in the international capital markets. The proceeds from the notes were utilized to repay domestic commercial paper. The company entered into an interest rate swap agreement that effectively converted the fixed interest rate associated with the notes to a variable rate based on LIBOR. Due to favorable market conditions, the company terminated the interest rate swap agreement and is amortizing the resulting gain over the remaining life of the notes, producing an effective borrowing rate of 7.3%.

In 1993, the company's United Kingdom affiliate privately placed with various banks £125.0 million ($197.0 million) aggregate principal of 8.85% notes due during 2013. In April 1993, an affiliated company paid £70.6 million ($111.3 million) for an interest in the notes. The notes are shown in the balance sheet as a net amount outstanding of £24.9 million ($40.3 million), which will be fully amortized in three years. The effective interest rate was 8.3% at April 30, 1997 and May 1, 1996.

7. SHAREHOLDERS' EQUITY

Capital Stock: The preferred stock outstanding is convertible at a rate of one share of preferred stock into 13.5 shares of common stock. The company can redeem the stock at $28.50 per share.

On April 30, 1997, there were authorized, but unissued, 2,200,000 shares of third cumulative preferred stock for which the series had not been designated.

Employee Stock Ownership Plan (ESOP): The company established an ESOP in 1990 to replace in full or in part the company's cash-matching contributions to the H.J. Heinz Company Employees Retirement and Savings Plan, a 401(k) plan for salaried employees. Matching contributions to the 401(k) plan are based on a percentage of the participants' contributions, subject to certain limitations.

To finance the plan, the ESOP borrowed $50.0 million directly from the company in 1990. The loan is in the form of a 15-year variable-rate interest-bearing note (an average of 5.6%, 5.5% and 5.6% for 1997, 1996 and 1995, respectively) and is included in the company's Consolidated Balance Sheets as unearned compensation. The proceeds of the note were used to purchase 2,366,862 shares of treasury stock from the company at approximately $21.13 per share.

The stock held by the ESOP is released for allocation to the participants' accounts over the term of the loan as company contributions to the ESOP are made. The company contributions are reported as compensation and interest expense. Compensation expense related to the ESOP for 1997, 1996 and 1995 was $3.0 million, $2.3 million and $3.7 million, respectively. Interest expense was $1.1 million, $1.5 million and $1.9 million for 1997, 1996 and 1995, respectively. The company's contributions to the ESOP and the dividends on the company stock held by the ESOP are used to repay loan interest and principal.

The dividends on the company stock held by the ESOP were $2.3 million, $2.1 million and $2.5 million in 1997, 1996 and 1995, respectively.

The ESOP shares outstanding at April 30, 1997 and May 1, 1996, respectively, were as follows: unallocated 711,725 and 958,141; committed-to-be-released 61,724 and 29,553; and allocated 1,156,236 and 1,036,904. Shares held by the ESOP are considered outstanding for purposes of calculating the company's net income per share.

Cumulative Translation Adjustments: Changes in the cumulative translation component of shareholders' equity result principally from translation of financial statements of foreign subsidiaries into U.S. dollars. The reduction in shareholders' equity related to the translation component increased $55.1 million in 1997, decreased $1.4 million in 1996 and decreased $107.0 million in 1995. During 1997, a gain of $13.8 million was transferred from the cumulative translation component of shareholders' equity and included in the determination of net income as a component of the $72.1 million gain recognized as a result of the liquidation of the company's investment in its New Zealand ice cream business. (See Note 3 to the Consolidated Financial Statements.)

Unfunded Pension Obligation: An adjustment for unfunded foreign pension obligations in excess of unamortized prior service costs was recorded, net of tax, as a reduction in shareholders' equity. (See Note 10 to the Consolidated Financial Statements.)

	Cumulative Preferred Stock	*Common Stock*				
	Third, $1.70 First Series $10 Par	*Issued*		*In Treasury*		*Additional Capital*
(Amounts in thousands)	*Amount*	*Amount*	*Shares*	*Amount*	*Shares*	*Amount*
Balance April 27, 1994	$398	$107,774	431,096	$1,239,177	57,540	$134,255
Reacquired	–	–	–	273,671	11,456	–
Conversion of preferred into common stock	(40)	–	–	(976)	(54)	(937)
Stock options exercised, net of shares tendered for payment	–	–	–	(53,305)	(3,035)	(12,264)*
Other, net	–	–	–	(7,843)	(320)	237
Balance May 3, 1995	$358	$107,774	431,096	$1,450,724	65,587	$121,291
Reacquired	–	–	–	155,200	4,806	–
Conversion of preferred into common stock	(87)	–	–	(2,674)	(117)	(2,587)
Stock options exercised, net of shares tendered for payment	–	–	–	(101,751)	(7,747)	35,797*
Other, net	–	–	–	(633)	(31)	101
Balance May 1, 1996	$271	$107,774	431,096	$1,500,866	62,498	$154,602
Reacquired	–	–	–	277,046	7,939	–
Conversion of preferred into common stock	(30)	–	–	(963)	(41)	(932)
Stock options exercised, net of shares tendered for payment	–	–	–	(147,071)	(6,466)	21,946*
Other, net	–	–	–	(377)	(18)	195
Balance April 30, 1997	$241	$107,774	431,096	$1,629,501	63,912	$175,811
Authorized Shares—April 30, 1997	24		600,000			

* *Includes income tax benefit resulting from exercised stock options.*

8. SUPPLEMENTAL CASH FLOWS INFORMATION

(Dollars in thousands)	1997	1996	1995
Cash Paid During The Year For:			
Interest	$310,146	$308,564	$ 210,610
Income taxes	295,008	143,646	251,358
Details of Acquisitions:			
Fair value of assets	$264,560	$269,907	$1,359,028
Liabilities*	56,168	113,697	179,942
Cash paid	208,392	156,210	1,179,086
Less cash acquired	9	204	267
Net cash paid for acquisitions	$208,383	$156,006	$1,178,819

* *Includes notes to sellers of $14.2 million and $37.4 million in 1997 and 1996, respectively.*

9. EMPLOYEES' STOCK OPTION PLANS AND MANAGEMENT INCENTIVE PLANS

Under the company's stock option plans, officers and other key employees may be granted options to purchase shares of the company's common stock. The option price on all outstanding options is equal to the fair market value of the stock at the date of grant. Generally, options are exercisable beginning from three years after date of grant and have a maximum term of 10 years.

The company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation cost has been recognized for the company's stock option plans. If the company had elected to recognize compensation cost based on the fair value of the options granted at grant date as prescribed by SFAS No. 123, net income and earnings per share would have been reduced to the pro forma amounts indicated below:

(Dollars in thousands, except per share data)	1997	1996
Pro forma net income	$295,605	$658,798
Pro forma net income per common share	$ 0.79	$ 1.75

The pro forma effect on net income for 1997 and 1996 is not representative of the pro forma effect on net income in future years because it does not take into consideration pro forma compensation expense related to grants made prior to 1996.

The weighted-average fair value of options granted was $6.94 per share in 1997 and $6.27 per share in 1996.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	1997	1996
Dividend yield	3.25%	3.28%
Volatility	17.46%	17.83%
Risk-free interest rate	6.33%	6.03%
Expected term (years)	5.5	5.5

Data regarding the company's stock option plans follows:

	Shares	Weighted-Average Exercise Price Per Share
Shares under option April 27, 1994	42,096,318	$20.55
Options granted	3,568,050	27.36
Options exercised	(3,038,937)	14.60
Options surrendered	(454,500)	24.27
Shares under option May 3, 1995	42,170,931	$21.52
Options granted	2,154,100	32.11
Options exercised	(11,713,653)	18.40
Options surrendered	(115,500)	25.26
Shares under option May 1, 1996	32,495,878	$23.33
Options granted	7,508,500	34.68
Options exercised	(6,466,030)	20.92
Options surrendered	(463,500)	25.87
Shares under option April 30, 1997	33,074,848	$26.34
Options exercisable at:		
May 3, 1995	17,754,381	$18.49
May 1, 1996	12,252,228	21.53
April 30, 1997	18,473,073	22.53

The following summarizes information about shares under option in the respective exercise price ranges at April 30, 1997:

	Options Outstanding			Options Exercisable	
Range of Exercise Price Per Share	Number Outstanding	Weighted-Average Remaining Life (Years)	Weighted-Average Exercise Price Per Share	Number Exercisable	Weighted-Average Exercise Price Per Share
$12.67–22.08	13,178,735	6.09	$21.33	11,905,235	$21.25
23.00–32.13	16,374,113	6.59	27.87	6,482,838	24.64
33.00–42.38	3,522,000	9.66	37.96	85,000	39.73
	33,074,848			18,473,073	

The shares authorized but not granted under the company's stock option plans were 11,316,235 at April 30, 1997 and 3,421,235 at May 1, 1996. Common stock reserved for options totaled 44,391,083 at April 30, 1997 and 35,917,113 at May 1, 1996.

Effective June 12, 1996, the Board of Directors adopted and the shareholders approved a new stock option plan providing for the grant of up to 15.0 million shares of common stock at any time over the next 10 years. In general, the terms of the 1996 plan are similar to the company's other stock option plans.

The company's management incentive plan covers officers and other key employees. Participants may elect to be paid on a current or deferred basis. The aggregate amount of all awards may not exceed certain limits in any year. Compensation under the management incentive plans was approximately $37 million in 1997, $37 million in 1996 and $24 million in 1995.

10. RETIREMENT PLANS

The company maintains retirement plans for the majority of its employees. Current defined benefit plans are provided primarily for domestic union and foreign employees. Benefits are based on years of service and compensation or stated amounts for each year of service. Plan assets are primarily invested in equities and fixed-income securities. The company's funding policy for domestic defined benefit plans is to contribute annually not less than the ERISA minimum funding standards nor more than the maximum amount which can be deducted for federal income tax purposes. Generally, foreign defined benefit plans are funded in amounts sufficient to comply with local regulations and ensure adequate funds to pay benefits to retirees as they become due.

Effective in 1993, the company discontinued future benefit accruals under the defined benefit plans for domestic non-union hourly and salaried employees and expanded its defined contribution plans for these same employees.

The company maintains defined contribution plans for the majority of its domestic non-union hourly and salaried employees. Defined contribution benefits are provided through company contributions that are a percentage of the participant's pay based on age, with the contribution rate increasing with age, and matching contributions based on a percentage of the participant's contributions to the 401(k) portion of the plan. (The company's matching contributions for salaried employees are provided under the ESOP. See Note 7 to the Consolidated Financial Statements.) In addition, certain non-union hourly employees receive supplemental contributions, which are paid at the discretion of the company.

Total pension cost consisted of the following:

(Dollars in thousands)	*1997*	*1996*	*1995*
Defined Benefit Plans:			
Benefits earned during the year	$ 15,583	$ 13,675	$ 14,648
Interest cost on projected benefit obligation	81,620	74,623	66,734
Actual return on plan assets	(149,513)	(200,592)	(26,254)
Net amortization and deferral	64,499	117,461	(56,285)
	12,189	5,167	(1,157)
Defined contribution plans (excluding the ESOP)	23,658	25,946	17,222
Total pension cost	$ 35,847	$ 31,113	$ 16,065

The following table sets forth the combined funded status of the company's principal defined benefit plans at April 30, 1997 and May 1, 1996.

	Plans for Which Assets Exceed Accumulated Benefits		Plans for Which Accumulated Benefits Exceed Assets	
(Dollars in thousands)	1997	1996	1997	1996
Actuarial present value of:				
Accumulated benefit obligation, primarily vested	$ 814,721	$737,026	$193,114	$187,275
Additional obligation for projected compensation increases	32,850	26,725	36,293	27,896
Projected benefit obligation	847,571	763,751	229,407	215,171
Plan assets, at fair value	1,079,148	962,510	149,868	138,505
Projected benefit obligation less than (in excess of) assets	231,577	198,759	(79,539)	(76,666)
Unamortized prior service cost	81,879	71,824	5,067	7,735
Unamortized actuarial (gains) losses, net	(70,324)	(60,439)	66,001	75,944
Unamortized net (assets) at date of adoption	(18,479)	(23,366)	(828)	(1,310)
Additional minimum liability	–	–	(44,870)	(54,472)
Prepaid (accrued) pension costs	$ 224,653	$186,778	$(54,169)	$(48,769)

The adjustment for unfunded foreign pension obligations in excess of the unamortized prior service costs was recorded, net of tax, as a reduction in shareholders' equity of $27.0 million and $32.6 million in 1997 and 1996, respectively. In 1997, the remaining portion of the unfunded obligation was recorded as other long-term assets and deferred taxes in the amounts of $2.1 million and $15.8 million, respectively. In 1996, the remaining portion of the unfunded obligation was recorded as other long-term assets and deferred taxes in the amounts of $2.8 million and $19.1 million, respectively.

The weighted-average rates used for the years ended April 30, 1997, May 1, 1996 and May 3, 1995 in determining the net pension costs and projected benefit obligations for defined benefit plans were as follows:

	1997	1996	1995
Expected rate of return on plan assets	9.6%	9.4%	10.0%
Discount rate	8.2%	8.4%	8.7%
Compensation increase rate	5.2%	5.3%	5.2%

Assumptions for foreign defined benefit plans are developed on a basis consistent with those for U.S. plans, adjusted for prevailing economic conditions.

11. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The company and certain of its subsidiaries provide health care and life insurance benefits for retired employees and their eligible dependents. Certain of the company's U.S. and Canadian employees may become eligible for such benefits. In general, postretirement medical coverage is provided for eligible non-union hourly and salaried employees with at least 10 years of service rendered after the age of 45 and certain eligible union employees who retire with an immediate pension benefit. Effective May 1, 1996, retired employees share in the cost of the plan at a rate of 50%. The company currently does not fund these benefit arrangements and may modify plan provisions or terminate plans at its discretion.

Net postretirement costs consisted of the following:

(Dollars in thousands)	*1997*	*1996*	*1995*
Postretirement benefits earned during the year	$ 3,864	$ 2,736	$ 2,700
Interest cost on accumulated postretirement benefit obligation	11,694	13,350	13,249
Net amortization and deferral	(7,014)	(6,583)	(5,165)
Net postretirement benefit costs	$ 8,544	$ 9,503	$10,784

The following table sets forth the combined status of the company's postretirement benefit plans at April 30, 1997 and May 1, 1996.

(Dollars in thousands)	*1997*	*1996*
Accumulated postretirement benefit obligation:		
Retirees and spouses	$104,300	$109,006
Employees currently eligible to retire	14,790	21,756
Employees not yet eligible to retire	24,787	31,899
Total accumulated postretirement benefit obligation	143,877	162,661
Unamortized prior service cost	15,346	21,380
Unrecognized net gain	62,277	34,953
Accrued postretirement benefit obligation	221,500	218,994
Current portion, included in other accrued liabilities	10,000	9,000
Non-pension postretirement benefits	$211,500	$209,994

The weighted-average discount rate used in the calculation of the accumulated postretirement benefit obligation and the net postretirement benefit cost was 8.0% in 1997, 8.1% in 1996 and 8.4% in 1995. The assumed annual composite rate of increase in the per capita cost of company-provided health care benefits begins at 9.0% for 1998, gradually decreases to 5.2% by 2007, and remains at that level thereafter. A 1% increase in these health care cost trend rates would cause the accumulated postretirement obligation to increase by $16.9 million, and the aggregate of the service and interest components of 1997 net postretirement benefit costs to increase by $2.6 million.

12. FINANCIAL INSTRUMENTS

Foreign Currency Contracts: As of April 30, 1997 and May 1, 1996, the company held currency swap contracts with an aggregate notional amount of approximately $400 million. These contracts have maturity dates extending from 1998 through 2012. The company also had separate contracts to purchase certain foreign currencies as of April 30, 1997 and May 1, 1996 totaling $598.7 million and $444.8 million, respectively, and to sell certain foreign currencies totaling $62.2 million and $66.5 million, respectively, most of which mature within one year of the respective fiscal year-end. Net unrealized gains and losses associated with the company's foreign currency contracts as of April 30, 1997 and May 1, 1996 were not material.

Commodity Contracts: As of April 30, 1997 and May 1, 1996, the notional values and unrealized gains or losses related to commodity contracts held by the company were not material.

Fair Value of Financial Instruments: The company's significant financial instruments include cash and cash equivalents, short- and long-term investments, short- and long-term debt, interest rate swap agreements, currency exchange agreements and guarantees.

In evaluating the fair value of significant financial instruments, the company generally uses quoted market prices of the same or similar instruments or calculates an estimated fair value on a discounted cash flow basis using the rates available for instruments with the same remaining maturities. As of April 30, 1997 and May 1, 1996, the fair value of financial instruments held by the company approximated the recorded value.

Effective April 28, 1994, the company adopted SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." SFAS No. 115 requires that the carrying value of certain investments be adjusted to their fair value. The adoption of SFAS No. 115 had no effect on the company's financial position or results of operations. The company's investments are considered to be "available-for-sale" securities and are principally debt securities issued by foreign governments.

Concentrations of Credit Risk: Counterparties to currency exchange and interest rate derivatives consist of large major international financial institutions. The company continually monitors its positions and the credit ratings of the counterparties involved and, by policy, limits the amount of credit exposure to any one party. While the company may be exposed to potential losses due to the credit risk of non-performance by these counterparties, losses are not anticipated. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers, generally short payment terms, and their dispersion across geographic areas.

13. QUARTERLY RESULTS (UNAUDITED)

	1997				
(Dollars in thousands, except per share data)	*First*	*Second*	*Third*	*Fourth*	*Total*
Sales	$2,208,760	$2,394,058	$2,307,538	$2,446,651	$9,357,007
Gross profit	795,639	847,504	848,289	480,484	2,971,916
Net income (loss)	179,530	177,520	174,387	(229,566)	301,871
Per Common Share Amounts:					
Net income (loss)	$0.48	$0.47	$0.47	$(0.61)	$0.81
Dividends	0.26½	0.29	0.29	0.29	1.13½

	1996				
(Dollars in thousands, except per share data)	*First*	*Second*	*Third*	*Fourth*	*Total*
Sales	$2,094,293	$2,288,277	$2,193,138	$2,536,557	$9,112,265
Gross profit	774,308	822,931	812,308	927,361	3,336,908
Net income	174,469	158,167	156,484	170,199	659,319
Per Common Share Amounts:					
Net income	$0.46	$0.42	$0.42	$0.45	$1.75
Dividends	0.24	0.26½	0.26½	0.26½	1.03½

Third-quarter 1997 results include restructuring and related costs ($0.03 per share), partially offset by a gain on the sale of real estate in the U.K. ($0.02 per share).

Fourth-quarter 1997 results include restructuring and related costs ($1.06 per share). (See Note 4 to the Consolidated Financial Statements.) These charges were partially offset by a gain on the sale of the New Zealand ice cream business ($0.12 per share). (See Note 3 to the Consolidated Financial Statements.)

Fourth-quarter 1996 results include gains related to the sale of the *Weight Watchers Magazine* ($0.02 per share) and the sale of two regional dry pet food product lines ($0.02 per share) and a charge for restructuring costs at certain overseas affiliates ($0.01 per share).

Fourth-quarter 1996 earnings also benefited from a lower effective tax rate resulting from the recognition of tax losses overseas and increased profits from operations in lower tax rate jurisdictions ($0.04 per share). (See Note 5 to the Consolidated Financial Statements.)

14. COMMITMENTS AND CONTINGENCIES

Legal Matters: On December 31, 1992, a food wholesale distributor filed suit against the company and its principal competitors in the U.S. baby food industry. Subsequent to that date, several similar lawsuits were filed in the same court and have been consolidated into a class action suit. The complaints, each of which seeks an injunction and unspecified treble money damages, allege a conspiracy to fix, maintain and stabilize the prices of baby food. Related suits have also been filed in Alabama and California state courts, seeking to represent a class of indirect purchasers of baby food in the respective states. The defendants have filed a motion for summary judgment to which the plaintiffs have filed a response. The company believes all of the suits are without merit and will defend itself vigorously against them. Certain other claims have been filed against the company or its subsidiaries and have not been finally adjudicated. The above-mentioned suits and claims, when finally concluded and determined, in the opinion of management, based upon the information that it presently possesses, will not have a material adverse effect on the company's consolidated financial position or results of operations.

Lease Commitments: Operating lease rentals for warehouse, production and office facilities and equipment amounted to approximately $93.2 million in 1997, $87.1 million in 1996 and $89.5 million in 1995. Future lease payments for non-cancellable operating leases as of April 30, 1997 totaled $276.7 million (1998–$55.6 million, 1999–$44.8 million, 2000–$37.3 million, 2001–$33.0 million, 2002–$26.9 million and thereafter–$79.1 million).

15. ADVERTISING COSTS

Advertising costs for fiscal years 1997, 1996 and 1995 were $346.8 million, $377.8 million and $314.8 million, respectively.

16. SUBSEQUENT EVENTS

On June 30, 1997, the company completed the sale of its frozen foodservice foods business to McCain Foods Limited of New Brunswick, Canada for approximately $500 million. The transaction included the sale of Heinz's Ore-Ida appetizer, pasta and potato foodservice business and the five Ore-Ida plants that manufacture the products. The Ore-Ida foodservice business contributed approximately $525 million in net sales for Fiscal 1997. The sale is not expected to have an adverse effect on the company's results of operations.

On June 30, 1997, the company acquired John West Foods Limited from Unilever. John West Foods Limited, with annual sales of more than $250 million, is the leading brand of canned tuna and fish in the United Kingdom. Based in Liverpool, John West Foods Limited sells its canned fish products throughout Continental Europe and in a number of other international markets. (John West operations in Australia, New Zealand and South Africa are not included in the transaction.)

RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management of H.J. Heinz Company is responsible for the preparation of the financial statements and other information included in this annual report. The financial statements have been prepared in conformity with generally accepted accounting principles, incorporating management's best estimates and judgments, where applicable.

Management believes that the company's internal control systems provide reasonable assurance that assets are safeguarded, transactions are recorded and reported appropriately, and policies are followed. The concept of reasonable assurance recognizes that the cost of a control procedure should not exceed the expected benefits. Management believes that its systems provide this appropriate balance. An important element of the company's control systems is the ongoing program to promote control consciousness throughout the organization. Management's commitment to this program is emphasized through written policies and procedures (including a code of conduct), an effective internal audit function and a qualified financial staff.

The company engages independent public accountants who are responsible for performing an independent audit of the financial statements. Their report, which appears herein, is based on obtaining an understanding of the company's accounting systems and procedures and testing them as they deem necessary.

The company's Audit Committee is composed entirely of outside directors. The Audit Committee meets regularly, and when appropriate separately, with the independent public accountants, the internal auditors and financial management to review the work of each and to satisfy itself that each is discharging its responsibilities properly. Both the independent public accountants and the internal auditors have unrestricted access to the Audit Committee.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders of
H.J. Heinz Company:

We have audited the accompanying Consolidated Balance Sheets of H.J. Heinz Company and Subsidiaries at April 30, 1997 and May 1, 1996, and the related Consolidated Statements of Income, Retained Earnings and Cash Flows for each of the three years in the period ended April 30, 1997. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of H.J. Heinz Company and Subsidiaries at April 30, 1997 and May 1, 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended April 30, 1997, in conformity with generally accepted accounting principles.

Coopers & Lybrand L.L.P.

600 Grant Street
Pittsburgh, Pennsylvania
June 17, 1997 except for Note 16,
as to which the date is June 30, 1997

ELEVEN-YEAR SUMMARY OF OPERATIONS AND OTHER RELATED DATA

H.J. Heinz Company and Subsidiaries

(Dollars in thousands, except per share data)	*1997*	*1996*	*1995*	*1994*
SUMMARY OF OPERATIONS:				
Sales	$9,357,007	$9,112,265	$8,086,794	$7,046,738
Cost of products sold	6,385,091	5,775,357	5,119,597	4,381,745
Interest expense	274,746	277,411	210,585	149,243
Provision for income taxes	177,193	364,342	346,982	319,442
Income before cumulative effect of accounting change	301,871	659,319	591,025	602,944
Cumulative effect of SFAS No. 106 adoption	–	–	–	–
Net income	301,871	659,319	591,025	602,944
Income per common share before cumulative effect of accounting change	0.81	1.75	1.59	1.57
Cumulative effect of SFAS No. 106 adoption	–	–	–	–
Net income per common share	0.81	1.75	1.59	1.57
OTHER RELATED DATA:				
Dividends paid:				
Common	416,923	381,871	345,358	325,887
per share	1.13½	1.03½	0.94	0.86
Preferred	43	56	64	71
Average shares for earnings per share	373,703,246	377,155,837	372,806,306	385,218,024
Number of employees	44,700	43,300	42,200	35,700
Capital expenditures	377,457	334,787	341,788	275,052
Depreciation and amortization expense	340,490	343,809	315,267	259,809
Total assets	8,437,787	8,623,691	8,247,188	6,381,146
Total debt	3,447,435	3,363,828	3,401,076	2,166,703
Shareholders' equity	2,440,421	2,706,757	2,472,869	2,338,551
Pretax return on average invested capital	12.6%	21.8%	22.1%	22.7%
Return on average shareholders' equity before cumulative effect of accounting change	11.7%	25.5%	24.6%	25.9%
Book value per common share	6.64	7.34	6.76	6.26
Price range of common stock:				
High	44⅞	36⅝	28⅝	26⅝
Low	29¾	27⅝	21⅛	20½

The 1997 results include a pretax charge for restructuring and related costs of $647.2 million, offset by capital gains of $85.3 million from the sale of non-strategic assets in New Zealand and the U.K. The 1994 results include a pretax gain of $127.0 million relating to the divestiture of the confectionery and specialty rice businesses. The 1993 results include a pretax restructuring charge of $192.3 million. The 1992 results include a pretax gain of $221.5 million for the sale of The Hubinger Company, a pretax restructuring charge of $88.3 million and a pretax pension curtailment gain of $38.8 million.

1993	1992	1991	1990	1989	1988	1987
$7,103,374	$6,581,867	$6,647,118	$6,085,687	$5,800,877	$5,244,230	$4,639,486
4,530,563	4,102,816	4,063,423	3,726,613	3,550,249	3,212,580	2,858,096
146,491	134,948	137,592	108,542	77,694	73,995	50,978
185,838	346,050	335,014	306,979	284,661	236,559	226,070
529,943	638,295	567,999	504,451	440,230	386,014	338,506
(133,630)	–	–	–	–	–	–
396,313	638,295	567,999	504,451	440,230	386,014	338,506
1.36	1.60	1.42	1.26	1.11	0.97	0.82
(0.34)	–	–	–	–	–	–
1.02	1.60	1.42	1.26	1.11	0.97	0.82
297,009	270,512	239,212	207,387	178,340	154,418	132,278
0.78	0.70	0.62	0.54	0.46¼	0.40⅛	0.33½
78	86	91	113	134	155	177
389,682,692	399,508,683	399,942,926	399,117,144	395,352,102	398,117,835	410,503,998
37,700	35,500	34,100	37,300	36,200	39,000	37,500
430,713	331,143	345,334	355,317	323,325	238,265	184,730
234,935	211,786	196,138	168,523	148,104	133,348	109,868
6,821,321	5,931,901	4,935,382	4,487,451	4,001,807	3,605,083	3,364,197
2,613,736	1,902,483	1,226,694	1,256,607	962,321	780,330	876,620
2,320,996	2,367,398	2,274,863	1,886,899	1,777,238	1,593,856	1,392,949
18.7%	28.8%	31.3%	31.3%	31.4%	30.0%	29.5%
22.0%	27.5%	27.3%	27.5%	26.1%	25.8%	24.6%
6.08	6.21	5.84	4.96	4.61	4.16	3.60
30⅜	32⅝	27⅜	23⅜	17⅛	17¼	16⅝
23½	23⅜	19⅜	16⅜	12⅜	11⅛	12¾

DIRECTORS AND OFFICERS

H.J. Heinz Company

DIRECTORS

Anthony J.F. O'Reilly
Chairman and
Chief Executive Officer.
Director since 1971. (1,3,5,6)

William R. Johnson
President and
Chief Operating Officer.
Director since 1993. (1,5)

Joseph J. Bogdanovich
Vice Chairman.
Director since 1963. (1,3,6)

Nicholas F. Brady
Chairman and President,
Darby Advisors, Inc. and Chairman,
Darby Overseas Investments, Ltd.,
Easton, Maryland.
Director from 1987 through
September 1988.
Reelected 1993. (3,4)

Richard M. Cyert
President Emeritus and Professor
of Economics and Management,
Carnegie Mellon University,
Pittsburgh, Pennsylvania.
Director since 1984. (2,3,4,6)

Thomas S. Foley
Partner, Akin, Gump, Strauss,
Hauer & Feld, L.L.P. law firm,
Washington, D.C.
Director since 1995. (2,6)

Edith E. Holiday
Attorney and Director,
Various Corporations.
Director since 1994. (4,6)

Samuel C. Johnson
Nonexecutive Chairman, S.C. Johnson
& Son, Inc., Racine, Wisconsin.
Director since 1988. (2,4)

Donald R. Keough
Advisor to the Board,
The Coca-Cola Company, Atlanta,
Georgia and Chairman of the
Board, Allen & Co. Incorporated,
New York, New York.
Director since 1990. (2,3)

Albert Lippert
Consultant.
Director since 1978. (3,4,6)

Lawrence J. McCabe
Senior Vice President–
General Counsel.
Director since 1991. (1)

Paul F. Renne
Executive Vice President and
Chief Financial Officer.
Director since 1997. (1)

Luigi Ribolla
Executive Vice President and
President–Heinz Europe.
Director since 1992. (1)

Herman J. Schmidt
Director, Various Corporations.
Director since 1977. (2,3,4,6)

Eleanor B. Sheldon
Social Scientist.
Director since 1979. (2,4,6)

William P. Snyder III
President, The Wilpen Group, Inc.,
Pittsburgh, Pennsylvania.
Director since 1961. (2,3,4)

William C. Springer
Executive Vice President.
Director since 1993. (1)

S. Donald Wiley
Vice Chairman, H.J. Heinz
Company Foundation.
Director from 1972 through
September 1990.
Reelected 1991. (6)

David R. Williams
Executive Vice President.
Director since 1992. (1,5)

COMMITTEES OF THE BOARD

(1) Executive Committee
(2) Management Development and Compensation Committee
(3) Nominating Committee
(4) Audit Committee
(5) Investment Committee
(6) Public Issues Committee

OFFICERS

Anthony J.F. O'Reilly
Chairman and
Chief Executive Officer

William R. Johnson
President and
Chief Operating Officer

Joseph J. Bogdanovich
Vice Chairman

Paul F. Renne
Executive Vice President and
Chief Financial Officer

Luigi Ribolla
Executive Vice President and
President–Heinz Europe

William C. Springer
Executive Vice President

David R. Williams
Executive Vice President

Lawrence J. McCabe
Senior Vice President–
General Counsel

John Crawshaw
Area Vice President–Pacific Rim

John C. Crowe
Vice President–Taxes

F. Nicholas Grasberger III
Treasurer

George C. Greer
Vice President–Organization
Development and Administration

Edward J. McMenamin
Vice President and
Corporate Controller

Lelio G. Parducci
Vice President–Nutrition &
Technical Affairs and Chief Scientist

Mitchell A. Ring
Vice President–Business Development

D. Edward I. Smyth
Vice President–Corporate Affairs

Benjamin E. Thomas, Jr.
Vice President, Corporate Secretary
and Associate General Counsel

WORLD LOCATIONS

H.J. Heinz Company and Subsidiaries*

WORLD HEADQUARTERS

600 Grant Street, Pittsburgh, Pennsylvania.

THE AMERICAS

Heinz U.S.A. Established 1869. Pittsburgh, Pennsylvania. *Jeffrey P. Berger,* President–Foodservice Division. *Peter L. Bowen,* President–Retail Products Group. *Factories:* Chatsworth, California; Dallas, Texas; Escalon, California; Fremont, Ohio; Holland, Michigan; Jacksonville, Florida; King of Prussia, Pennsylvania; Mason, Ohio; Muscatine, Iowa; Pittsburgh, Pennsylvania; Stockton, California; Tracy, California.

Ore-Ida Foods, Inc. Acquired 1965. Boise, Idaho. *Richard H. Wamhoff,* President and Chief Executive Officer. *Factories:* Bloomsburg, Pennsylvania; Clarksville, Arkansas; Ft. Myers, Florida; Ontario, Oregon; Torrance, California; West Chester, Pennsylvania.

Star-Kist Foods, Inc. Acquired 1963. Newport, Kentucky. *Joseph J. Bogdanovich,* Chairman. *Michael D. Milone,* President and Chief Operating Officer–Heinz Pet Products. *Edgar J. Johnson,* President and Chief Operating Officer–StarKist Seafood Division. *Factories and Collection Stations:* Abidjan, Ivory Coast; Bloomsburg, Pennsylvania; Buenos Aires, Argentina; Corona, California; El Paso, Texas; Guayaquil, Ecuador; Kankakee, Illinois; Lawrence, Kansas; LePort, Reunion Island; Port Louis, Mauritius; Terminal Island, California; Topeka, Kansas; Weirton, West Virginia. *Liaison Offices:* Kaohsiung, Taiwan; Tokyo, Japan.

- ☐ *Star-Kist Caribe, Inc.* Acquired 1963. Mayaguez, Puerto Rico. *Mark W. Young,* Vice President–Caribbean Operations. *Factory:* Mayaguez.
- ☐ *Star-Kist Samoa, Inc.* Acquired 1963. Pago Pago, American Samoa. *Barry A. Mills,* Plant General Manager. *Factory:* Pago Pago.

Weight Watchers International, Inc. Acquired 1978. Woodbury, New York. *Kent Q. Kreh,* President and Chief Executive Officer. *Operational Headquarters:* Düsseldorf, Germany; Geneva, Switzerland; Helsingborg, Sweden; Helsinki, Finland; Maidenhead, England; Paris, France. *Publishing Group Headquarters:* New York, New York.

- ☐ *Cardio-Fitness Corporation.* Acquired 1985. New York, New York. *Kent Q. Kreh,* Chief Executive Officer.
- ☐ *The Fitness Institute.* Acquired 1988. Willowdale, Ontario, Canada. *Kent Q. Kreh,* Chief Executive Officer.

Weight Watchers Gourmet Food Company. Established 1991. Pittsburgh, Pennsylvania. *Neil Harrison,* President and Chief Executive Officer. *Factories:* Massillon, Ohio; Pocatello, Idaho.

Crestar Food Products, Inc. Acquired 1991. Brentwood, Tennessee. *Donald J. Kerr,* President and Chief Executive Officer. *Factories:* Richfield, Ohio; Washington Courthouse, Ohio.

H.J. Heinz Company of Canada Ltd. Established 1909. North York, Ontario, Canada. *Paul W. Sneddon,* President and Chief Executive Officer. *Factory:* Leamington, Ontario.

- ☐ *Omstead Foods Limited.* Acquired 1991. Wheatley, Ontario, Canada. *Paul W. Sneddon,* President and Chief Executive Officer. *Factory:* Wheatley, Ontario.
- ☐ *Shady Maple Farm Ltd.* Acquired 1989. LaGuadeloupe, Quebec, Canada. *Paul W. Sneddon,* President and Chief Executive Officer. *Factory:* LaGuadeloupe, Quebec.
- ☐ *Heinz Bakery Products.* Established 1992. Mississauga, Ontario, Canada. *Anthony Pietramala,* President and Chief Operating Officer. *Factories:* Bakersfield, California; Blackwood, New Jersey; Bridgeport, New Jersey; Buffalo, New York; Lenexa, Kansas; Long Island, New York; Mississauga, Ontario; Sherwood Park, Alberta; St. Hubert, Quebec; Vinita, Oklahoma.
- ☐ *Martin Pet Foods.* Acquired 1996. Elmira, Ontario, Canada. *Paul W. Sneddon,* President and Chief Executive Officer. *Factories:* Elmira, Ontario; Edmonton, Alberta.

Alimentos Heinz C.A. Established 1959. Caracas, Venezuela. *John M. Werner,* Area Director–Latin America and President and Chief Executive Officer–Alimentos Heinz. *Factory:* San Joaquín.

*As of April 30, 1997.

EUROPE AND AFRICA

H.J. Heinz Company, Limited. Established 1905. Hayes, Middlesex, England. *A. G. Malcolm Ritchie,* Managing Director and Chief Executive Officer and Vice President–European Foodservice and Grocery. *Factories:* Chorley; Harlesden; Kendal; Kitt Green; New Milton; Telford.

PLADA S.p.A. (Plasmon Dietetici Alimentari S.p.A.). Acquired 1963. Milan, Italy. *Claudio Serafini,* Managing Director and Chief Executive Officer. *Factories:* Latina; Milan; Ozzano Taro.

AIAL (Arimpex S.r.l. Industrie Alimentari). Acquired 1992. Commessaggio, Italy.

Dega S.r.l. Acquired 1994. Mori, Italy. *Factories:* Mori; Rovereto.

Fattoria Scaldasole S.p.A. Acquired 1996. Monguzzo, Italy. *Emilio Terzaghi,* President. *Factory:* Monguzzo.

Mareblu S.r.l. Acquired 1996. Milan, Italy. *Nicholas J. Harding,* President. *Adolfo Valsecchi,* Managing Director and Chief Executive Officer.

H.J. Heinz Northern Europe. Established 1995. Hayes, Middlesex, England. *Nicholas J. Harding,* Managing Director–European Grocery.

☐ *H.J. Heinz B.V.* Acquired 1958. Elst, Gelderland, Netherlands. *Anthonie F. Hulsewé,* Director–Operations. *Tonjes H. Slob,* General Manager–Operations/Elst. *Factory:* Elst.

☐ *H.J. Heinz Branch Belgium.* Established 1984. Brussels, Belgium. *Jacques Meert,* Director–Marketing & Sales/Benelux and Scandinavia.

☐ *H.J. Heinz GmbH.* Established 1970. Cologne, Germany. *Guus van Heereveld,* Director–Marketing & Sales/Germany, Austria and Switzerland.

☐ *H.J. Heinz S.A.R.L.* Established 1979. Paris, France. *Michel Larroche,* Director–Retail Dry Goods Business.

☐ *Pioneer Food Cannery Ltd.* Acquired 1995. Tema, Ghana. *Eric Kwei,* Managing Director. *Theodor A. Morgado,* General Manager. *Factory:* Tema.

☐ *Ets. Paul Paulet S.A.* Acquired 1981. Douarnenez, France. *Nicholas J. Harding,* President. *Factory:* Douarnenez.

☐ *IDAL (Industrias de Alimentação, Lda.) Fish Division.* Acquired 1988. Peniche, Portugal. *Pedro S. Macedo,* General Manager. *Factory:* Peniche.

☐ *Indian Ocean Tuna Ltd.* Established 1995. Victoria, Mahe, Seychelles. *Nicholas J. Harding,* Chairman. *Radley Weber,* Managing Director. *Factory:* Victoria.

Heinz Iberica, S.A. Established 1987. Madrid, Spain. *Jose A. Arnaldo,* Managing Director. *Factories:* Alfaro; Bermeo; Ejea de los Caballeros.

IDAL (Industrias de Alimentação, Lda.). Acquired 1965. Lisbon, Portugal. *Leonardo A. P. Caeiro,* Managing Director and Area Director–Southern Europe. *Factory:* Benavente.

COPAIS Food & Beverage Company S.A. Acquired 1990. Athens, Greece. *Emmanuel Kaldellis,* Chairman, President and Chief Executive Officer. *Factories:* Aliartos; Orchomenos.

H.J. Heinz Central Eastern Europe. Established 1994. Pittsburgh, Pennsylvania. *Brian E. Falck,* Area Director–Central Eastern Europe.

☐ *Heinz Kecskeméti Konzervgyár RT.* Acquired 1992. Kecskemet, Hungary. *Casaba Lengyel de Bagota,* Managing Director. *Factories:* Kecskemet.

☐ *H.J. Heinz Company C.I.S.* Established 1994. Moscow, Russia. *Tim Lamb,* General Director. *Factory:* Stavropol.

☐ *Heinz Polska Sp.* Established 1994. Warsaw, Poland. *Adam Dyszynski,* General Manager.

☐ *PMV/Zabreh.* Acquired 1995. Zabreh, Czech Republic. *Stuart Roberts,* Managing Director. *Factory:* Zabreh.

H.J. Heinz Company (Ireland) Limited. Incorporated 1966. Dublin, Ireland. *John P. H. O'Reilly,* Managing Director–European Retail Frozen and Chilled Foods.

Custom Foods Limited. Established 1992. Dundalk, Ireland. *John P. H. O'Reilly,* Chief Executive Officer and Managing Director–European Retail Frozen and Chilled Foods. *Factory:* Dundalk.

H.J. Heinz Southern Africa. Established 1995. Johannesburg, South Africa. *Rory W. Beattie,* Area Director–Southern Africa.

☐ *H.J. Heinz (Botswana) (Proprietary) Ltd.* Formed 1988. Gaborone, Botswana. *Rory W. Beattie,* Managing Director.

- *Kgalagadi Soap Industries (Pty) Ltd.* Acquired 1988. Gaborone, Botswana. *Rory W. Beattie,* Managing Director. *Factory:* Gaborone.
- *Refined Oil Products.* Formed 1987. Gaborone, Botswana. *Rory W. Beattie,* Managing Director. *Factory:* Gaborone.
- *Olivine Industries (Private) Limited.* Acquired 1982. Harare, Zimbabwe. *Rory W. Beattie,* Chairman. *John G. Osterberg,* Managing Director. *Factory:* Harare.
- *Chegutu Canners (Pvt) Ltd.* Established 1992. Chegutu, Zimbabwe. *Rory W. Beattie,* Chairman. *Factory:* Chegutu.
- *Heinz South Africa (Pty) Ltd.* Established 1995. Johannesburg, South Africa. *Rory W. Beattie,* Area Director–Southern Africa.
- *Heinz Frozen Foods (Pty) Ltd.* Established 1995. Klerksdorp, South Africa. *Rory W. Beattie,* Chairman. *Factory:* Viljoenskroon.

Cairo Foods Industries SAE. Established 1992. Cairo, Egypt. *Moataz Al Alfi,* Chairman and Chief Executive Officer. *Factory:* Cairo.

THE PACIFIC RIM AND SOUTHWEST ASIA

H.J. Heinz Pacific Rim. Established 1996. *John Crawshaw,* Area Vice President.

- *H.J. Heinz Australia Ltd.* Established 1935. Doveton, Victoria, Australia. *Neville J. Fielke,* Managing Director. *K. A. Dynon,* Managing Director–Diversified Businesses. *Factories:* Dandenong; Eden; Girgarre; Port Moresby, Papua New Guinea; Sydney.
- *Wattie's Limited.* Acquired 1992. Auckland, New Zealand. *David A. Irving,* Area Director–New Zealand. *Factories:* Auckland; Fielding; Gisborne; Hastings; New Plymouth; Te Horo.
- *Heinz Japan Ltd.* Established 1961. Tokyo, Japan. *Masahira Ogawa,* President. *Factory:* Utsunomiya.
- *Heinz-UFE Ltd.* Established 1984. Guangzhou, People's Republic of China. *Shirley Cheung,* President. *Factory:* Guangzhou.
- *Seoul-Heinz Ltd.* Established 1986. Seoul, South Korea. *John K. Johnson,* President and Representative Director. *Factory:* Inchon.
- *Heinz Win Chance Ltd.* Established 1987. Bangkok, Thailand. *Ming-Der Guan,* President. *Factory:* Bangplee.

Heinz India Private Limited. Acquired 1994. Bombay, India. *Pradeep N. Poddar,* Managing Director. *Factory:* Aligarh.

Heinz: A Definition H.J. Heinz Company is a worldwide provider of processed food products and nutritional services. Heinz's varieties now number more than 4,000 and its business extends to loyal consumers in more than 200 countries and territories. The company's two strongest global brands are Heinz and Weight Watchers, which in the United States are joined by powerful names, such as Ore-Ida, The Budget Gourmet, Earth's Best, StarKist, 9-Lives, Ken-L Ration and many others. Overseas, Heinz's best-known brands are Orlando, Wattie's, Olivine, Farley's, Plasmon and Guloso. Heinz provides employment for approximately 44,700 people full-time, plus thousands of others on a part-time basis and during seasonal peaks.

Annual Meeting The annual meeting of the company's shareholders will be held at 2:00 p.m. on Wednesday, September 10, 1997 in Pittsburgh at Heinz Hall for the Performing Arts.

Copies Of This Publication Additional copies of this publication are available from the Corporate Affairs Department at the World Headquarters address or by calling (412) 456-6000.

Form 10-K The company submits an annual report to the Securities and Exchange Commission on Form 10-K. Shareholders may obtain copies of this Form 10-K without charge by writing to the Corporate Affairs Department at the World Headquarters address.

Investor Information Securities analysts and investors seeking additional information about the company should contact Paul F. Renne, Executive Vice President and Chief Financial Officer, at the World Headquarters address or should call him at (412) 456-5716.

Equal Employment Opportunity H.J. Heinz Company hires, trains, promotes, compensates and makes all other employment decisions without regard to race, color, sex, age, religion, national origin, disability or other protected conditions or characteristics. It has affirmative action programs in place at all domestic locations to ensure equal opportunity for every employee.

Shareholders may obtain copies of the H.J. Heinz Company Equal Opportunity Review by writing to the Corporate Affairs Department at the World Headquarters address.

Political Contributions H.J. Heinz Company's guidelines on political contributions are set forth in Exhibit 99 of the company's Form 10-K. Shareholders may obtain copies of the exhibit by writing to the Corporate Affairs Department at the World Headquarters address.

Corporate Data *Transfer Agent, Registrar and Disbursing Agent (for inquiries and changes in shareholder accounts or to arrange for the direct deposit of dividends):* ChaseMellon Shareholder Services, L.L.C., 85 Challenger Road, Overpeck Centre, Ridgefield Park, New Jersey 07660. (800) 253-3399 (within U.S.A.) or (412) 236-8000.
Auditors: Coopers & Lybrand L.L.P., 600 Grant Street, Pittsburgh, Pennsylvania 15219
Stock Listing: New York Stock Exchange
Ticker Symbols: Common–HNZ
Third Cumulative Preferred–HNZ PR
Pacific Stock Exchange
Ticker Symbol: Common–HNZ

Dividend Reinvestment The company offers an Automatic Dividend Reinvestment Service for Shareholders. The plan provides for the reinvestment of quarterly dividends in shares of the company's common stock. Shareholders may also purchase additional shares under the plan with cash contributions. The company pays brokerage commissions and service charges under the plan. For a nominal charge to the shareholder, shares can be deposited for safekeeping.

For additional information regarding the dividend reinvestment plan, contact: Mellon Bank, N.A., P.O. Box 750, Pittsburgh, Pennsylvania 15230. (800) 253-3399 (within U.S.A.) or (412) 236-8000.

TDD Services ChaseMellon Shareholder Services can be accessed through telecommunications devices for the deaf (TDD).

Company News On-Call and Internet Access Heinz news releases, including earnings announcements, are available by fax 24 hours a day through Company News On-Call at (800) 758-5804. The Heinz extension is 402575. The On-Call information, plus quarterly and annual report summaries, also are posted on the Internet's World Wide Web at http://www.prnewswire.com.

Heinz

H.J. Heinz Company
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